

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

KNUST SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE



**ASSESSING THE ROLE OF INTERNAL AUDITING ON CORPORATE
GOVERNANCE PRACTICES OF OKOMFO ANOKYE RURAL BANK LTD**

By

KENNEDY OBIRI-YEBOAH (CA Ghana, CEMBA)

July, 2015

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**A THESIS SUBMITTED TO THE KNUST SCHOOL OF BUSINESS
KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
IN
PARTIAL FULFILMENT OF THE REQUIREMENT FOR AN AWARD OF
MASTERS DEGREE IN BUSINESS ADMINISTRATION
(ACCOUNTING OPTION).**

JULY, 2015

DECLARATION

I hereby declare that this submission is my own work towards an award of a second degree of Masters in Business Administration (Accounting Option) and that, to the best of my knowledge, it contains no material previously published by another person nor submitted to any other University or institution for the award of degree except where due acknowledgement has been made in text. However, references from the work of others have been clearly stated.

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(Head of Department) **Signature** **Date**

DEDICATION

This work is dedicated to my lovely and supportive wife, Juliet Obiri-Yeboah, and my children, Mercy, George, Reginald and Kennedy Jr.



ACKNOWLEDGEMENTS

I am very grateful to God Almighty, my maker and helper for guiding me through this arduous task.

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Special thanks go to Mr. Anthony Ayimasu (a project designer and analyst) for assisting me with data analysis and interpretations, editorial work and facilitating the compilation of this work.

I also thank the Directors and staff of Okomfo Anokye Rural Bank that accepted to be respondents. I would not have accomplished this work without the support, patience and understanding of my wife, Juliet Obiri-Yeboah. I therefore entreat the readers of this piece of work to join me say a big “THANK YOU” to her.

Finally, to my friends, who in diverse ways contributed either in kind or in cash towards this work, I say thanks to you also.

ABSTRACT

The corporate world has realized the major role played by the internal audit function in ensuring effective and efficient running of organizations to achieve corporate objectives and the impact it has had on corporate governance on the introduction of code of conducts for publicly traded companies and its strict requirements to be followed by managers of organizations. An assessment of the role of internal auditing on corporate governance practices in the Okomfo Anokye Rural Bank (OARB) is the purpose of this study. The study identified and evaluated the relevance of internal audit. It examined the effectiveness of the internal audit department and its appraisal function of examining, evaluating and monitoring the adequacy and effectiveness of internal controls in OARB. The study also identified and evaluated the specific roles internal audit plays to achieve the corporate governance objectives of OARB. The challenges that internal the audit department faces in OARB in the performance of its functions were also examined. Purposive Sampling method was used to select the respondents from the population. Case study approach was adopted for the study and both questionnaire and the interview method were used in collecting data. The data were analyzed using S.P.S.S and Microsoft Excel to identify trends. It was observed that, Internal Audit performs assurance and consulting services to the Board of Directors through providing independent and objective reviews and assessments of the bank's activities, operations, financial systems and evaluation of the risks and internal control systems. Generally, the study found out that staff agrees that the internal audit function plays an important role in the corporate governance practices of the bank. Recommendations, that if considered, could impact positively on the performance of the internal audit department and for that matter management of OARB is offered. These include ensuring that staffs are aware of the internal audit charter, building the capacity of the Internal Audit Department, enjoying goodwill and support from management, making available adequate resources to the internal audit department, etc. The conclusion drawn is that, the internal audit department is part of the governance structure of OARB and that the role it plays impact heavily on the work of management in managing the bank. Furthermore, internal audit plays a critical role in restoring confidence in the governance of the bank and promoting value for money for its operations.

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LIST OF ACRONYMS

	Acronym	Full Version
1.	3Es	Effectiveness, Efficiency and Economy
2.	APB	Auditing Practices Board
3.	APC	Auditing Practices Committee
4.	ARB	Association of Rural Banks
5.	BoG	Bank of Ghana
6.	CCOHS	Canadian Centre for Occupational Health and Safety
7.	CEO	Chief Executive Officer
8.	GAAP	Generally Accepted Accounting Principles
9.	HND	Higher National Diploma
10.	IAASB	International Auditing Assurance Standards Board
11.	ICT	Information and Communication Technology
12.	IFAC	International Federation of Accountants
13.	IIA	Institute of Internal Auditors
14.	IMF	International Monetary Fund
15.	ISA	International Standards on Auditing
16.	ISO	International Organization for Standardization
17.	IT	Information Technology
18.	KNUST	Kwame Nkrumah University of Science and Technology
19.	MBA	Masters in Business Administration
20.	MSLC	Middle School Leaving Certificate
21.	OARB	Okomfo Anokye Rural Bank Limited
22.	SEC	Securities and Exchange Commission
23.	SME	Small and Medium Scale Enterprises
24.	SPSS	Statistical Package for the Social Sciences
25.	USA	United States of America

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter introduces the research work on assessing the role of internal auditing on corporate governance practices in Okomfo Anokye Rural Bank Limited (OARB). Specifically, the research focuses on the contribution made by the Internal Audit Department to the corporate governance practices of OARB. In this chapter, the background and context of the study are presented; the problem statements, the objectives of the study and research questions are formulated. Finally, the scope and limitations of the study as well as delimitations and the significance of the research are discussed.

1.1 Background of the study

Internal audit consists of investigation or review work carried out on a voluntary basis by an entity, for its own control purposes. The internal audit work may be carried out by the entity's own full-time internal audit staff, or by an external accountancy firm. The Institute of Internal Auditors defines Internal Audit as "An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Internal auditing is responsible for supporting management of organizations in achieving its objectives and in preventing fraud through the examination and the appraisal of the sufficiency

and effectiveness of controls in relation to the organization's exposure to risk in the various functions of the organization's operations. The internal audit function of an

organization is seen as part of the internal control systems in operation. This however, does not imply that, because internal auditors are charged with the responsibility of making sure that there is compliance with statutory and professional requirements, financial statements are or will be free from bias and material misstatements.

The core mandates of internal audit notwithstanding, many organizations seem to be having difficulties with regards to operational efficiency, effectiveness and economy. A number of corporate scandals have hit the world over a decade ago, despite the existence of internal audit departments within organizations and as part of organization's corporate governance structure. Corporate Governance is a system of structuring, operating and controlling an organization with a view to achieving long term strategic goals to satisfy stakeholders and complying with legal and regulatory requirements and meeting the environmental needs of the local community. (Prof Ken Attafuah, 2014). Established codes of corporate governance such as the IFAC Code or the UK's Combined Code highlight the need for businesses to maintain good systems of internal control to manage the risks the company faces. It is seen as part of good corporate governance to have an internal audit function to assess and monitor internal control policies and procedures.

1.1.1 A summary of some major corporate scandals

In 1998, Waste Management, a Houston, Texas (USA) based publicly traded company was found to have reported fake earnings of US\$1.7 billion by falsely increasing the useful life and therefore the depreciation time length of their property, plant and equipment. This resulted in understatement of expenses and therefore false reporting of higher profits. The main players, Founder/CEO Dean L. Buntrock and top executives and Arthur Anderson, External Auditors, were found guilty. New CEO and

management team uncovered the scandal. Waste Management settled a shareholder class action suit for US\$457 million and Arthur Anderson was fined US\$7 million by SEC.

Enron, Houston, Texas (USA) based commodities, energy and Service Corporation kept huge debt off the balance sheet to show good performance resulting in increased share price and insider trading. Sherron Watkins, an employee, on suspicion of high share prices blew the whistle in 2001. Shareholders lost \$74 billion. Thousands of employees and investors lost their investment and many employees lost their jobs.

Former CEO Jeff Skilling and CEO Ken Lay, together with Arthur Anderson (auditors) were found guilty. Lay died before serving time in Jail and Skilling got 24 years in prison.

WorldCom was one of the largest global telecommunications companies and its longdistance telephone ventures failed heavily as technological advancements in communication took place. However, instead of recognizing as expenses the “line costs” incurred, the company’s Chief Accounting Officer, Scott Sullivan, ordered his subordinates to recognize as “long-term investments” the routine operational “line costs.” That was in order to avoid reflecting heavy losses in the company’s financial statements.

In the case of WorldCom, *the company’s internal auditors* discovered the anomalous accounting entries in 2002, which spurred the Securities and Exchange Commission’s (SEC) full investigations. Initial results of SEC investigations disclosed about \$9 billion worth of business transactions misstated as capital investment costs instead of routine expenses, in order to avoid declaration of losses. Final accounting of the

anomalous accounting entries involved other capitalized expenses and fictitious accounts receivables amounting to \$11 billion. They were all certified by Arthur

Andersen, that all the transactions were in accordance with GAAP rules (Ciel s cantor, 2010).

American Insurance Group (AIG) in 2005 allegedly engaged in massive accounting fraud to the tune of \$3.9 billion, along with bid- rigging and share price manipulation. They allegedly booked loans as revenue, steered clients to insurers with whom AIG had payoff agreements and told traders to inflate share prices. Possible whistle blower action resulted in SEC regulator investigation. They settled with SEC for \$10 million in 2003 and \$1.64 billion in 2006; to a Louisiana Pension Fund for \$115 million and three Ohio pension funds for \$725 million. After posting the largest quarterly corporate loss in history in 2008 (\$61.7 billion) and getting bailed out with tax payers' dollars AIG executives paid themselves bonus of \$165 million.

(<http://www.accounting-degree.org/scandals/>). It was revealed that “Andersen performed both the external and the internal audits for Enron and also served Enron as a consultant in non-audit and tax matters. ‘Andersen’s three-way relationship with Enron created the possibility for several conflicts of interest’ (Sridharan, U. V., et al 2002).

Ghana has not been spared with financial malfeasance as experienced in the global market. There are several reported cases of financial malpractices in the Auditor General’s reports to Parliament. The judgment debt scandals reported in Ghana for which His Lordship Justice Yaw Apau issued his report to the President as Sole Commissioner in 2015 is a case in point.

In the Rural banking industry, a notable case of internal audit weakness that resulted in the closure of Atobiase Area Rural Bank in Ashanti Region by Bank of Ghana in 2008 is lamented by the Traditional ruler of the area in the GhanaWeb publication of 1st October 2008:

“I iterate that the BoG’s appointed interim Board of Directors, have willfully caused a substantial financial loss of over GH¢ 500,000 to the Atobiase Area Rural Bank. Further to this, making things worst this interim board of directors employed such bank employees as managers, accounting clerks without any specific security checks. Under the interim board administration imposed on the Bank by the Bank of Ghana with the complicity of Mr. Appiah-Adjei, they hired one Mr. Frank Bonsu to work in the Obuasi Branch of the Bank who stole 280 million Cedis (GH¢ 28,000). They hired another person by the name of Nimako who started overcharging fictitious renovation projects in three of the branches of the bank and embezzled over 90 million cedis (GH¢ 9,279). At the same time Mr. Samuel Ahaja stole 200 million cedis (GH¢ 20,000). Under the same interim management one Mr. Nikabo took away series of monies in the tune of 20 million, of which only 4.5 million (GH¢ 450) have not been yet refunded. Agnes Kuffour embezzled about 70 million (GH¢ 7,000) cheque issued by one manager Charles Sackey”.

"Some Susu collectors have embezzled over 120 million (GH¢ 12,000), which they haven’t been able to account for. In conclusion, by virtue of the analysis given above and, in accordance with BoG’s own regulations rule 26 of Responsibility of the Board of Directors for sound Governance, and since the BoG brought in their own Board of Directors to manage the affairs of the Atobiase Rural Bank, the BoG is solely responsible for collapse of the bank and therefore has no justification to close down the Atobiase Rural Bank. I essentially, in my capacity as the Chief of the Atobiase town,

thereby use these media to urge the BoG to resolve and clean up their own mess in order to reconstitute the Atobiase Bank”.

Nana Taaka Siaw II, Adansi-Atobiasehene

GhanaWeb Feature Article of Wednesday, 1 October 2008 Columnist: Bright Siaw Afriyie; bsiawa@aol.com

1.2 Statement of the research problem

Many organizations, of which Okomfo Anokye Rural Bank (OARB) is no exception, do have internal audit departments within their governance structure. The Internal Audit Department stands at the intersection of Management, External Auditors, the Board of Directors and other Stakeholders outside the organization, but with interest in these organizations.

Arthur Hald, a founding member of the Institute of Internal Auditors (IIA) is credited with the following statement:

“Necessity created internal auditing and is making it an integral part of modern businesses. No large business can escape it. If they haven’t got it now, they will have to have it sooner or later, and if events keep developing as they do at present, they will have to have it sooner (Flesher 1996)”

The corporate scandals that have hit the world over a decade ago demonstrates the need for considerable changes in accounting, auditing and corporate governance in organizations, as well as a closer look at the ethical quality of culture of businesses.

These scandals also reaffirm Arthur Hald’s statement quoted by Flesher 1996, of the necessity to have internal auditing in organizations. It is said that a well-organized internal audit function helps management to implement strategy and achieve mission and corporate objectives by providing a systematic and disciplined approach to

evaluation and improvement of the efficiency, effectiveness, economy, and equity of company business (Spencer Pickett, K.H., 2005), yet many organizations seem to be having difficulties with regards to operational efficiency, effectiveness and economy. Is it the case of lack of quality personnel in the internal audit department, or is it a case of management interference of the functions of the Internal Audit department or a matter of collusion and connivance? Could it also be a case of limitation of scope of the internal audit function by Management? The relevance of the Internal Audit Department comes into question as organizations face one scandal after another.

The following extract of the report of the Ministerial Impact Assessment and Review Committee on Ghana Youth Employment and Entrepreneurial Agency (GYEEDA) dated 15 July 2013 at page 88 reveals as follows:

“6.4 BANKING OPERATIONS AND MALFEASANCE

The virtual non-existence of internal controls seriously affected the banking operations of GYEEDA with funds being embezzled in some cases. The Committee was not able to fully ascertain the extent of fraud in relation to GYEEDA. However, evidence gathered seemed to suggest that the practice of unlawfully taking money from GYEEDA could be pervasive. The Committee found with deep concern, two instances where unauthorized bank accounts were opened at the District level in the name of GYEEDA with the sole purpose of transferring money into them for the benefit of a few individuals”.

Such financial malfeasances are possible when there are weaknesses in internal control systems in organizations and in which internal audit does not function as expected. This has a negative view on effective corporate governance of

organizations. Internal audit's responsibilities are growing due to increased regulatory scrutiny as well as directives from executives to strengthen controls and improve risk management. Increasingly, business leaders expect internal audit to play a more strategic – rather than merely tactical – role in the governance process. In fact, that role is consistent with the definition of “internal audit” sanctioned by The Institute of Internal Auditors (IIA). However, the internal audit function continues to play only a minor role in many organizations.

The researcher therefore, seeks to assess the role of internal auditing on corporate governance practices in Okomfo Anokye Rural Bank in the era of these corporate scandals and the need for improvement in regulatory compliance.

1.3 Research objectives

The main objective of this study is to assess the role of internal auditing on corporate governance practices in OARB. The researcher seeks to accomplish this task with the following specific research objectives:

1. To identify and evaluate the relevance of internal audit in OARB.
2. To examine the effectiveness of the Internal Audit function in OARB.
3. To identify and evaluate the specific roles internal auditors play to assist management achieve the corporate governance objectives of OARB.
4. To identify and examine the challenges that the Internal Auditors of OARB face in the performance of their functions.

1.4 Research questions

Major research questions addressed by this study include the following;

1. How relevant is internal auditing to OARB?
2. How effective is the Internal Audit function of OARB?

3. What specific roles does the Internal Audit Department play in order to assist OARB achieve its corporate governance objectives?
4. What are the challenges and problems faced by the Internal Audit Department in the performance of their functions and roles?

1.5 Significance of the study

The main purpose of this study is to enable the Board of Directors of Okomfo Anokye Rural Bank (OARB) assess the role of the internal audit department in the corporate governance practices of the bank. Rural Banks in Ghana, prior to the year 2000 have had credibility and trust problems in the minds of the banking public due to poor corporate governance practices leading to closure of some rural banks. OARB is a community bank owned by a large number of rural folks in the Sekyere South District of Ashanti Region. Its effective and efficient operations as a rural bank are of paramount interest to the shareholders that established the bank to serve them. The shareholders, supported by Bank of Ghana and ARB Apex Bank over the years have been seeking for accountability, efficient and judicious use of resources by the Directors. It is curious to assess whether or not regulatory controls by Bank of Ghana over the last 15 years in the Rural Banking sector have improved governance of the Banks. The Internal Audit charter of OARB will be a useful reference material to assess the effectiveness of the Internal Audit function. Internal auditing can be considered as a control mechanism in this regard. This work will therefore enlighten management about the relevance of the internal audit function being an integral part of their governance structure and practices and therefore according it the needed recognition and support.

Besides the shareholders and regulators requiring accountability, other development agencies like the Danish International Development Agency (DANIDA) and Social

Investment Fund (SIF) provide cheaper funds for on-lending to rural enterprises that operate in the catchment areas of the rural bank. A concern of these development partners has not been how much to provide as support to the rural communities, but how well resources are being used and whether or not there are control mechanisms to check abuses in financial management controls. The study will provide the development partners some assurance in this respect. The study will help OARB in strengthening its internal controls, which will ensure that probity and accountability is adhered to in all its operations.

The study will also contribute to literature on the impact of internal auditing on corporate governance: its contribution towards effectiveness, efficiency and economy on organizational activities. It will also serve as a basis for future research and further studies for students and academicians.

1.6 Scope of the study

OARB has Seven Branches at Ashanti New Town, Pankrono and Kronum Abuohia in the Kumasi Metropolis and at Boamang and Tetrem, in Afigya Kwabre District and Agona and Wiemoase in the Sekyere South District. The head office is also located at Wiemoase. The scope of the study is all the seven branches of OARB and the head office. The seven Directors of the bank also participated in the survey.

1.7 Limitation of the study

The researcher has to combine a number of performance activities, which if not managed well would affect the final product. This study involves a lot of travelling to conduct one on one interview, administering questionnaires, and taking feedback from respondents. Access to information was at times very difficult. Some challenges were encountered as respondents' busy schedules delayed research work.

1.8 Delimitations

The first step of solving a problem is the identification of the problem itself. The researcher recognizes the need to do many things at a time, without having to make a choice as to which duties are to be performed or not. The researcher is committed to the task ahead, will develop time schedule (Gantt chart) for the study and follow it religiously. The attainment of the objective of the researcher depends to a greater extent on time that is devoted to the study. In particular, time for gathering and analyzing data for the study would be very crucial to the work. The limitations therefore, could not affect the validity of the results and conclusions of the study.

1.9 Organization of the study

The study is presented in five chapters. Chapter 1 introduces the study and provides the background to the study as well as the statement of the problem, research questions formulated, objectives, significance, scope, limitations and delimitations of the study. Chapter 2 presents the literature review; this is where other studies and works of researchers and academicians already carried out in this field would be critically examined and reviewed to support the study. Chapter 3 basically describes the process of the data collection, the sources and methods of data collection and concludes with the profile of OARB. Chapter 4 presents data collection and discussions and analysis on the data. In chapter 5 major findings are presented, conclusions, drawn and recommendations made where appropriate.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter is concerned with the review of relevant studies, research works and theories on internal audit practices and corporate governance issues. It looks specifically at the internal audit function within the governance structure of organizations and how these functions help organizations in achieving their corporate goals.

An internal audit department plays vital roles in organizations such as Okomfo Anokye Rural Bank (OARB) and it is central to any company's governance structure. It became more critical and central in OARB's scheme of affairs with the introduction of an Audit Sub-committee of the Board in 2005. Their mandate is to ensure that OARB staff and the organization as a whole responds appropriately to and implement external and internal auditors' recommendations to ensure value for money, efficiency, economy and effectiveness. Cohen *et al.* (2002) indicated that, internal auditing is an integral part of the corporate governance structure in both the public and the private sectors. Arthur Levitt, former chairman of the Securities and Exchange Commission (SEC), stated that effective supervision of the financial reporting process depends to a large extent on strong audit committees, and that qualified devoted independent and though minded audit committees represent the most reliable custodians of the public interest (Levitt, 1998; Braiotta 2004). Arthur Levitt's view on audit committees as a tool for effective oversight of the financial reporting process in organizations was echoed by Arthur Hald, a founding member of the Institute of Internal Auditors (IIA), who stated that:

“Necessity created internal auditing and is making it an integral part of modern businesses. No large business can escape it. If they haven’t got it now, they will have to have it sooner or later, and if events keep developing as they do at present, they will have to have it sooner (Flesher, 1996)”.

2.1 The Concept of Auditing

The definition and objective of auditing provides further assurance and reliance on the job of the auditor, and this amply demonstrates the relevance of auditing. The ‘Auditing Standards and Guidelines’ of the Auditing Practices Committee (APC) of the recognized Accountancy Bodies of the United Kingdom defines auditing as an ‘independent examination of, and expression of opinion on, the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with the relevant statutory obligation’. However the International Auditing Assurance Standards Board (IAASB) indicates that ‘the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements as prepared, show a true and fair view in all material respects, and in accordance with applicable financial reporting framework. The auditor reviews the financial position and transactions of the organization per the organization’s own financial controls system in place, and attempts to find out whether the organization’s financial statements are free from material misstatements, whether due to fraud or error.

There are two types of audit, all of which is to assist management in attaining its goals and objectives. They are external and internal audit. Both types of auditing define the function as an independent, objective assurance and consulting activity to add value and improve an organization’s performance.

2.1.1 External audit

An external audit is a type of assurance engagement that is carried out by a suitably appointed person to give an independent opinion on a set of financial statements. An audit provides assurance to the shareholders and other stakeholders of a company on the financial statements because it is independent and impartial. External audit involves the engagement of an independent person(s) from outside an organization to examine the financial statements prepared by management. The external auditor's job is to present an accurate, fair analysis of the company's financial position to the members of the company, whereas other users of that financial statement are also largely reliant on the external auditor's work to make their economic decisions.

The independence and objectivity of an external auditor is crucial and critical for him to be successful. The external auditor is expected to be independent and have no relationship with the organization that it audits, as it may be interpreted that the auditor will be partial in his audit work. This generally means he cannot be a friend or relative of any owner, manager, or an employee of the organization that he audits. He must not be part owner of the organization or have any monetary interest in any of their client's subsidiaries or holdings. The implication is that there must not be any evidence whatsoever, relating to conflict of interest. An external auditor should accustom himself with the environment and nature of the business he is auditing prior to starting the audit.

2.1.2 Internal audit

Internal audit is defined by the Institute of Internal Auditors (IIA) as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Unegbu and Obi (2007) defined internal audit as part of the internal control system designed by management of an organization to ensure compliance to stipulated work procedure and as aid to management. In the view of

Adeniji (2004), internal audit is part of the internal control system put in place by management of an organization. According to Unegbu and Kida, (2011), Internal Auditing assists management; it ensures that the financial operations are correctly carried out having regard to the law and also to the wishes of the board . Internal audit function is also defined by the International Standards on Auditing (ISA 610) as an appraisal or monitoring activity established within an entity as a service to the entity. It functions by, amongst other things, examining, evaluating and reporting to management and the directors on the adequacy and effectiveness of components of the accounting and internal control systems. Organizations are expected to act in accordance with statutory and professional requirements. This duty is monitored through auditors, which in a sense makes the internal audit unit the eye of management. This however, does not mean that, because internal auditors are charged with the responsibility of making sure that there is compliance with statutory and professional requirements, financial statements will be free from bias and material misstatements. However, internal auditors help management and boards of directors to streamline their activities in tune with best international practices, so that external auditors do not fault the organization in relation to material misrepresentations. Internal auditors may be involved in financial audits, focusing on the audit of items in the statement of comprehensive income and statement of financial position. When the internal auditors perform this type of work, they may duplicate work that the external auditors might otherwise be expected to do. The external auditors might therefore be able to rely on the work of the internal auditors in reaching their audit conclusion. However, the internal audit function often has a much wider role than simply performing financial audits, and in many entities, particularly large entities, the internal auditors are involved in review of operations.

2.1.2.1 Main types of internal audit:

- a) **Financial audit:** an audit process that gives assurance that an organization's financial statements are free from material misstatements, based on the organization's internal controls.
- b) **Operational audit:** An audit of the organization's activities and/or operations.
- c) **Compliance audit:** it checks whether the organization complies with laws, regulations and/or obligations.
- d) **Investigative audit:** These audits are conducted to identify existing control weaknesses, assist in determining the amount of loss and recommending corrective measures to prevent additional losses. Internal Audit will also work with outside agencies to determine if misconduct occurred at OARB. These types of investigations can encompass misuse of OARB's funds or assets, fraud or potential conflicts of interest.
- e) **Technology Audits:** Technology audits are usually comprised of control reviews of disaster recovery plans, system back up procedures and the general security of data and of the physical plant. The purpose of these audits is to evaluate the accuracy, effectiveness and efficiency of the OARB's electronic and information processing systems.

2.1.2.2 Other types of Internal Audit

- a) **Energy audit:** these are checks on how the entity is making use of energy and whether its operations are energy-efficient.
- b) **Social audit:** these are checks on the impact of the entity on the society in which it operates.

- c) **Environmental audit:** these are checks on the effect the entity is having on its natural environment, and considers issues such as the use of sustainable materials, re-cycling, reducing pollution, and so on
- d) **Human resource audit:** these are audits into the work force of an entity, to check whether the entity has adequate systems for the recruitment, selection, training and development of employees to meet its current and future needs.

2.2 The Relevance of Internal Audit in Corporate Governance

Internal Audit contributes enormously in helping audit committees, by taking hold of organizational internal controls and risk management processes. Internal audit also provides information about any irregularities or fraudulent activities (Rezaee and Lander, 1993). They as well encourage audit committees to conduct periodic reviews of its activities compared with current best practices (Sawyer, 2003). In 2003, the U.S. Securities and Exchange Commission approved final versions of revised New York Stock Exchange (NYSE) and NASDAQ requirements. The NYSE now requires that listed companies have an internal audit function.

The ultimate responsibility for corporate governance policies and practices lies directly with the Board of Directors. The organization employs auditors to test and monitor internal controls. Internal auditors are charged with ensuring that corporate processes and associated controls are functioning as intended. They also can determine if a process of the corporation could be improved and could save the corporation money or could become more efficient. Ensuring that resources of the corporation are used effectively is a major role of internal auditors. One of the most important tasks of the internal auditor is the detection of fraud. Left alone, fraud can cause a corporation millions of dollars in lost revenue, and also can affect a corporation's public image. The

boards of directors of many corporations depend solely on the internal audit team to reveal instances of fraud and abuse (Austin, 2012).

The IIA has clarified roles and responsibilities by affirming the importance of risk management and corporate governance. Internal auditing, according to the institute, “helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” The institute’s revised International Professional Practices Framework calls upon internal auditors to evaluate and offer recommendations to improve governance processes. (Julien, R. & Rieger, L. September 2011).

Internal auditors provide a number of proactive services to management. Their services are proactive because as they are within the organization in which they work for they are able to take preemptive measures against any occurrence that can thwart the achievement of organizational goals. These include preventing and detecting fraud, testing internal controls, and monitoring compliance with company policy and government regulation. Smaller companies may require these roles even more than large companies. A small business simply cannot afford employee fraud, waste, or a government fine. Internal audit roles provide a vital step in the growth of a small business (Jeffrey Thomas 2013).

In summary, internal audit is relevant but costs money and should therefore provide benefits to justify the costs. The relevance of internal audit comes from auditors:

- Providing recommendations for improvements in financial controls or operational controls within the entity.

- Ensuring and providing recommendations for improvements in compliance with key laws and regulations, thereby reducing the risk of legal action or action by the regulators against the entity.
- Ensuring accuracy, integrity & reliability of financial and operational Information.
- Ensuring strict compliance of policies & procedures of the entity.
- Safeguarding and ensuring judicious use of the Entity's Resources.
- Facilitating the prevention and detection of fraud.
- Assessing the effectiveness of the design, implementation and maintenance of an entity's Internal Controls.
- Ensuring adequacy of risks management in the Entity.
- Assisting management to ensure that strategy, goals and objectives are achieved.

2.2.1 Risk management, control, and governance process

IIA Standard 2010 (Nature of Work) makes it clear that “the internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach. According to Rossiter Carmen (Protiviti Managing Director), internal audit has a duty to contribute to the improvement of effective risk management, control and the governance processes of organizations, of which OARB is no exception.

The internal auditor reports to the Audit Committee of the board and helps the organization to achieve its objectives using a systematic approach to evaluate and improve the effectiveness of risk management, systems, controls, and the governance process. Effective internal auditors serve as an organization's corporate conscience and advisors for operational efficiency, internal control, and risk management. They also educate and make suggestions to management and the board of directors (and/or other

governance oversight bodies) to help the organization in meeting its goals and objectives.

Governance, risk management and internal control are all interrelated; effective organizational governance involves a partnership among the governing body, executive management, internal auditors and external auditors. When these partnerships are working well together, internal controls are strong which also translates to a climate of ethical behavior and oversight, mitigation of risks, safeguarding of assets, and accurate reporting. In measuring the effectiveness of an internal audit function, it is worthwhile recalling what internal audit actually does and what it does not. The Institute of Internal Auditors (2004) by stating that the internal audit activity should evaluate and contribute to the improvement of risk management, control and governance, recognizes the assurance and consulting role of internal auditing in corporate governance.

2.3 The effectiveness of internal audit's appraisal function

The definition of the Internal Audit Function as per ISA 610 has several parts:

- Internal Auditing is an appraisal system.
- It is established by management as a service to the entity.
- It involves the review of the accounting systems.
- It involves the review of internal control systems, which are systems for financial controls, operational controls and compliance controls.

An Internal Audit charter describes the mission, independence and objectivity, scope and responsibilities, authority, accountability and standards of the Internal Audit function. The Internal Audit charter of OARB summarizes the functions of the Internal Audit department as follows:

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To ensure the integrity and accuracy of the bank's financial statements and its accounting financial reporting and disclosure of policies.

- To ensure soundness of the bank's system of internal controls which the bank had established regarding finance and accounting matters and their effective implementation.
- To ensure the bank's compliance with statutory and policy manual requirements.
- To collaborate with the bank's external auditors as well as other regulatory bodies and inspectors.
- Monitor efficiency, cost control and budgetary prudence.
- To safeguard the bank's assets as well as the interest and rights of the bank's customers and staff.
- To conduct special investigations and report in matters in financial malfeasance and general operational malpractice.
- Auditing the adequacy of controls in the entity's IT systems.

Internal Audit's appraisal function is effective if this range of appraisal activities can be freely performed by the auditors.

2.3.1 Essential features of an effective internal audit Department

The essential features of an effective internal audit department, according to the guidance for internal auditors, issued in October 1992, and revised in September 2004 are as follows:

- Independence of the internal audit department.
- Appropriate staffing and training.
- Relationships (Good interpersonal skills of Audit staff).

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- Due care and responsibility
Planning, controlling and recording of audit work
- Effective evaluation of the internal audit control systems
- Evidence gathering to facilitate expression of an opinion
- Effective reporting and follow-up of previous findings and recommendations.

2.4 The role of internal audit in achieving corporate objectives

Internal auditing is defined by the Institute of Internal Auditors (IIA) as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The definition of internal auditing makes it clear that it is an assurance and consulting activity. The IIA has defined an assurance service as: 'An objective examination of evidence for the purpose of providing an independent assessment of risk management, control, or governance processes for the organization. Examples may include financial, compliance, systems security, and due diligence engagements (Khan, M.W.A. 2014).

The role of an internal audit department in any organization is also enshrined in the Internal Audit Charter. According to the internal audit charter of OARB, internal audit plays the following roles to fulfill its responsibilities;

- It is the duty of the internal Audit Unit of the bank to draw up an audit programme and plan to guide the activities of the audit unit for the accounting year. The plan should be approved by the board through the boards' subcommittee on audit and governance.
- The Internal Audit Unit must report periodically to the board on its activities through the audit and governance sub- committee.

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- The Internal Audit Unit shall make suitable recommendations for the continuous improvement of and adherence to the banks' policies, procedures and practices of all levels.
The Internal Audit Unit must undertake special assignments as be requested by the board or as a matter of management interest.
- The Internal Audit Unit of the bank is an independent body that reports directly to the board.
- The Internal Audit Unit of the bank has the right and authority to have direct access to and communicate with any member of staff, to examine any activity, or entity of the bank, as well as to access any records, files or data of the bank, including management information and the minutes of all consultative and decision making bodies, whenever relevant to the performance of its assignments.
- The head of the Internal Audit Unit shall be the secretary to the boards' subcommittee on audit and governance.
- The Audit and Governance Sub-Committee shall review and discuss both Management and External Auditors, audited annual financial statements before they are released.

In their paper, strengthening corporate governance with internal audit, Rick Julien and Larry Rieger said:

Internal audit performs critical roles in all aspects of corporate governance by:

- Supporting the audit committee in fulfilling its responsibilities;
- Participating in the organization's disclosure committee;

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- Reviewing the effectiveness of the organization's code of conduct, ethics policies, and whistle-blower provisions;
- Helping assess risks and gauge performance across the organization;
Monitoring corporate governance activities and compliance with the organization's policies;
- Facilitating and enhancing communications with the chief executive officer, general counsel, chief financial officer, chief information officer, and other oversight executives; and
- Evaluating the effectiveness of the corporate governance activities and recommending areas for enhancements.” Julien R and Rieger, L. (September 2011).

Vos, 1997, said that the objective of internal audit is to appraise effectiveness of financial and operating controls, authenticate compliance with company policies, procedure, safeguard assets, and verify the accuracy and consistency of organization's external and internal reports. Stoner, 1994 however, was of the view that the objective of internal audit is to evaluate several of the organization's reports for accuracy and usefulness and also recommending improvement of the control system. Owler and Brown, 1999 indicated that, the objective of internal audit is to guard management against errors of principles and neglect of duty. Tracey, 1994, is of the view that, it is the responsibility of the internal auditor to evaluate how well the accounting system works and also assess the effectiveness and efficiency of many operations in the organization. The Role of the Internal Auditor is mainly classified under two headings namely, Assurance and Consulting Services.



2.4.1 Assurance Services

Internal audit provides assurance services in three basic areas:

- Risk management processes, both the design and the function of the risk management framework.

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- Management of key risks including the effectiveness of the controls and other responses to the risks; and
- Reliable and appropriate assessment of risks and reporting of risks and control status

2.4.2 Consulting Services

Consulting service is defined as:

“Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training. (Khan, W.M.A. 2012). By their research, Gramling and Myers (2006) pointed out the role of internal audit in the entity’s process of risk management. The summary of the results of their study was that, for the roles of the internal audit, risk management processes are assured and can be relied on. The identification of the internal audit roles in the public sector was confined to the studies done by Ernst and Young (2008) and Spanhove et al. (2008). The results of Ernst and Young’s (2008) research into public sector entities all over the world point out that the internal audit responsibilities comprise of the assessment of internal control; identification and evaluation of the area’s most sensitive to risks; testing the effectiveness of procedures; the audit of financial information and one of the information system; drawing up the manuals of procedures; and creation of internal control and assessment of public policies.

2.4.3 Risk Assessment

Internal control systems are put in place by the directors in order to help them manage the company’s ‘governance’ risks. Risk can be thought of as anything which may

prevent an organization from achieving its objectives. It may be convenient in this context to think of risks as ‘Business risks’ and the “risks of errors or fraud, or the risk that information will be unreliable”. Risk is extremely relevant to the role of the internal auditor. His work may often involve carrying out a risk assessment exercise, designed to identify the main areas of risk to which the organization is exposed. The internal auditor will report these risks to management, and will make suggestions about how the risks can be managed. (Owusu-Afriyie, R. 2015). It is useful to analyze the risks that are considered by internal auditors into three main categories (OwusuAfriyie, R. 2015). These are:

- Operational risk: The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events
- Financial risk: Financial Risk as the term suggests is the risk that involves financial loss to firms. Financial risk generally arises due to instability and losses in the financial market caused by movements in stock prices, currencies, interest rates and more.
- Compliance risk: Compliance risk is defined as the risk of legal sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with laws, its own regulations, code of conduct, and standards of best/good practice.

Therefore, to be able to assess the role of internal auditing on corporate governance, especially within OARB, we would need to find out what are the roles played by the internal audit staff.

2.5 Challenges and problems that internal auditors face

Internal Auditors face many problems, challenges, as well as opportunities, as organizations seek to improve organizational management, vis-à-vis businesses becoming increasingly complex and all-encompassing technology, a need for new skills, flattening organizational structure, demand for an expanding scope and dynamism of products and services and increasing competition and globalization. A Framework for Internal Auditors (IIA, 2001) identifies a number of threats that affects the auditor's independence and objectivity. These are but not limited to self-review, social pressure, economic interest, personal relationship, cultural, familiarity, racial and gender bias. These threats can affect the work and performance of the auditor when safeguards to protect the auditor's independence and objectivity are not put in place.

2.5.1 Internal audit challenges

In an article written by Kramer, J. (2009) in Protiviti Knowledge Leader, which was based on an MIS Super Strategies conference in Las Vegas on the theme, "Internal Audit and its Formidable Challenges", the author focused on the responses given by participants on what constitute the biggest internal audit challenges in the next five years. The responses were that internal audit should be focused, so that it is risk based, not just transaction-based; thinking of the smarter ways to use technology. The panelist believes internal auditors ought to be trained and make them more technologically confident; making internal audit a more strategic part of the business. In an article published by the IIA Research Foundation in October/November 2009, the IIA President and CEO Richard F. Chambers discussed some of the significant challenges that he believes internal auditors face during the coming years as aligning internal audit coverage to meet new expectations, realizing skills to address new requirements,

addressing internal auditing's role of assessing risk management, leveraging technology to achieve greater efficiencies and coping with diminished resources.

2.5.2 Problems faced by internal auditors

Strapped for resources, yet faced with new challenges. This is how PricewaterhouseCoopers summarized internal audit budget reductions and constraints in the face of doing more with less as a fragile economy looks to regain its footing (PricewaterhouseCoopers 2009). Internal auditors are faced with declining resources, yet they must demonstrate value added. Vincins R. A., (2013), writing on the EMERGE Group blog identifies the causes of the problems faced by the internal auditors. He said management does not support the audit program (the executive management team is required to set the audit criteria and support the audit program ISO 19011); no audit preparation (audits that are performed haphazardly are the result of no preparation, planning, or process review); dealing with difficult clients; (to get the most out of any audit, one must successfully interact with the owner of the process while reviewing his or her processes, procedures, and records); publishing audit reports (the anguish of the report being criticized and subject to rejection is another dilemma that the auditor faces). In summary the challenges and problems faced by internal auditors centre around the following issues:

- Audit units may not be adequately resourced with staff and finance to enable them perform their functions.
- Some management staff do not support the audit program and ensure that the work is performed.
- Internal Audit staff may lack adequate training and updated skills particularly in the area of accounting standards and new technology required for their job.

- Absence of a cordial relationship between internal audit staff and management and other senior members of staff is a major setback for free expression of independent opinion.
- Internal Audit reports may not be well accepted and given proper attention by management and the board.

2.6 Conclusion

From the foregoing literature review, it is evident that the importance of the internal audit unit to any company cannot be over-emphasized at all. Because of its pivotal and critical relevance to contemporary economies, the internal audit function has assumed a unique feature of successful organizations. Its major relevance lies in its “policing” perspective; in detecting and deterring fraud, and ensuring compliance to controls and regulations. The audit committee helps managers streamline their activities in line with best and acceptable practices. Thus, a very good management really utilizes the full capacity of the internal auditors. However, internal auditing is only effective if it provides the audit committee and executive management with the assurance they need; in that they can rely on the organization's processes and systems to manage risks to the achievement of the organization's objectives. The researcher identified that the key specific role of the internal audit is to identify and assess potential risks to the organization's operations and review the adequacy of controls established to ensure compliance with policies, plans, procedures, and business objectives. The researcher also identified that the services of the internal auditor are proactive, in that, they are within organizations in which they work for and therefore are able to take preemptive measures against any occurrence that can prevent the achievement of organizational goals. Despite all these benefits derived from the internal audit department, they face a number of problems and challenges that can thwart their efforts in helping organizations

to achieve their objectives. The researcher identified that key among the challenges is how to maintain its objectivity and independence as it operates within the organization.

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CHAPTER THREE
RESEARCH METHODOLOGY
AND PROFILE OF OKOMFO ANOKYE RURAL BANK (OARB)

3.0 Introduction

This Chapter explains how the study was conducted. It defines the research design and approach that was used in conducting the study. The chapter also defines the population and sample size of the study, including the statistical techniques used in analyzing the data.

3.1 Research Approach

A research approach is the plan and the procedure for research that spans the steps from broad assumptions to detailed methods of data collection, analysis and interpretation. Basically, there are two approaches (or methodologies) in gathering and analyzing data for a research work; qualitative and quantitative. Qualitative and quantitative methods are used in research to differentiate both data collection techniques and data analysis procedures.

3.1.1 Qualitative technique

According to Saunders *et al.* (2009), qualitative method is used predominantly as a synonym for any data collection technique such as an interview or data analysis procedure such as categorizing data that generates or use non-numerical data. Qualitative therefore can refer to data other than words, such as pictures and video clips. It looks at perceptions and attempts to provide an index for different perceptions about a particular item.

3.1.2 Quantitative technique

Quantitative is predominantly used as a synonym for any data collection technique such as a questionnaire, or data analysis procedure such as graphs or statistics that

generates or uses numerical data. Here, the quantitative technique focuses on the magnitudes/modulus of items, such that quantitative data may be discrete or continuous. Even though, most researchers use either qualitative or quantitative techniques in gathering data and analyzing data, the researcher used both approaches.

3.2 Research design

Saunders, Lewis and Thornhill (2009) define research design as the general plan which guides a researcher in answering research questions. A research design is the blue print of the study. The design of a study defines the study type. There are a number of research designs that a researcher can use. An exploratory research is a valuable means of finding out 'what is happening; seek new insights; ask questions and assess phenomena in a new light (Robson, 2002). There are three principal ways of conducting exploratory research. These are a search of the literature; interviewing 'experts' in the subject; and conducting focus group interviews (Saunders *et al.*, 2007). Exploratory research establishes causal relationships between variables. The emphasis is on studying a situation or a problem in order to explain the relationships between variables (Saunders *et al.*, 2007).

According to Creswell (2012), descriptive research designs help to gather information about the present and existing condition of a research parameter. Again, Creswell (2012) emphasized that with the use of a descriptive research design, more emphasis is laid on describing rather than on judging or interpreting the process. McMillan (1996) agrees that descriptive study simply describes and provides an understanding of a phenomenon usually with simple descriptive statistics and it is particularly valuable when an area is first investigated. A descriptive research is to portray an accurate profile of persons, events or situations (Robson, 2002). Another major reason for the use of

the descriptive research design is that it is used to answer descriptive research questions such as ‘What is happening?’, ‘How is something happening?’ and ‘Why is something happening?’ (Creswell, 2012). Further, the design allows the use of descriptive statistical tools such as percentages, frequencies and the mean in the analysis of data collected.

Despite all the advantages of the descriptive research design, it has some inherent weaknesses. These include the difficulty in ensuring that questions to be reacted to during interviews, especially, are explicit and not misleading because survey results may vary significantly depending on the exact wording of the items. Also, data gathered could produce untrustworthy results because they may delve into private and emotional matters in which respondents might not be completely truthful. The researcher used the descriptive method.

Explanatory research is defined as an attempt to connect ideas to understand cause and effect, meaning that the researcher wants to explain what is going on. This research does not occur until there is enough understanding to begin to predict what will come next with some accuracy. The goal of all explanatory research is to answer the question of why. Explanatory research attempts to go above and beyond what exploratory and descriptive research to identify the actual reasons a phenomenon occurs.

3.3 Research strategy

According to Saunders (2003) a research strategy is a general plan of action that gives direction to the efforts of a researcher enabling him to conduct research systematically rather than haphazardly. Research strategy is also helpful for the researcher to use specific data collection methods to support the arguments. (Saunders, 2003). There are

numerous strategies available for a researcher. Depending on the kind and objects of the research work, the extent of existing knowledge, as well as one's own philosophical underpinnings, the researcher chooses the strategy that will enable them to achieve their aim. It must be emphasized that the various research strategies are not mutually exclusive. For example, it is quite possible to use the survey strategy (which was adopted for this present study) as part of a case study. A case study is defined as the use of a single person or organization in a research study. The advantage of a case study is that it allows a researcher to gain a lot of in-depth, detailed information due to the close examination of this single case. However, a disadvantage is that what you learn about this particular organization might not be true of organization else. So, it may be difficult to make general conclusions about the entire industry in which the organization belongs. However in selecting an organization for a case study a researcher should select one that has characteristics that very much represent the industry as a whole.

3.3.1 Experiment strategy

Experiment is a form of research that is tilted much to the natural sciences. The purpose of an experiment is to study causal links; whether a change in one independent variable produces a change in another dependent variable (Hakim, 2000).

3.3.2 Survey

The survey strategy is usually associated with the deductive approach to research. It is often used for exploratory and descriptive research. Surveys allow the researcher to collect large amount of data from a sizeable population in a highly economical way. It is often obtained by using a questionnaire administered to a sample. These data are standardized, allowing easy comparison.

3.3.3 Case study

It is a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence, (Robson, 2002). The data collection techniques employed may vary numerically and are likely to be used in combination. They may include, for example, interviews, observations and questionnaires. A case study is defined as the use of a single person or organization in a research study. The advantage of a case study is that it allows a researcher to gain a lot of in-depth, detailed information due to the close examination of this single case. However, a disadvantage is that what you learn about this particular organization might not be true of organization else. So, it may be difficult to make general conclusions about the entire industry in which the organization belongs. However in selecting an organization for a case study a researcher should select one that has characteristics that very much represent the industry as a whole. Case study approach was adopted throughout this study, because the researcher wanted to gain a rich understanding of internal audit practices and its impact on corporate governance within OARB. The researcher also wanted answers to the ‘why?’ as well as to the ‘what?’ and ‘how?’ questions about OARB’s governance practices and its internal audit unit.

3.4 Sources of data

In this study, primary and secondary data were both utilized. The reason for this was to be able to provide adequate discussion for the readers that will help them understand more about the issue and the different variables that are involved.

3.4.1 Primary data

The primary data for the study was represented by the survey results that were acquired from the respondents through the administration of questionnaires and interviews. Primary data is original data collected directly by the researcher for the research work. The researcher settled on questionnaires, formal and informal interviews with management and staff of selected OARB agencies.

3.4.2 Secondary data

On the other hand, secondary data is data collected by others for purposes which can be different from the researcher's purpose. Secondary data include both raw data and published summaries. The researcher used secondary data to validate and ensure reliability of the study. The secondary sources of data came from published articles, internet, company and other OARB official statistics. These include the bank's internal audit charter, operating manual and published financial statements.

3.5. Data collection instruments

The researcher used both questionnaire and the interview method in gathering data for the work.

3.5.1 Questionnaire

The researcher made use of open-ended and close-ended questions. The open-ended type questions allowed for free expression of views and comments. The questionnaires were administered personally to the sampled staff from the sampling frame, and given some time to fill at their convenience. Different sets of questionnaires were administered to staff depending on their operational levels within the organization, which characterizes their understanding of auditing, accounting and managing of the

various agencies and departments. Respondents who could neither read nor write were guided.

3.5.2 The interview method

The interview method was adopted as a supplement to the questionnaire. This was done to enable the researcher ascertain some of the information that could not be accessed using the questionnaire. The researcher personally conducted all interviews which were at the convenience of the respondents.

3.6. Population of respondents and Sample selection

3.6.1 Population

Population refers to the whole group that the study focuses on. The study's population comprised Rural Banks in Ghana, from which a purposive sample is selected as OARB for a case study. All the staff members and Board of Directors were selected for the study. OARB has seven (7) branches located in seven (7) towns and villages with staff strength of 140 and 7 directors making up a population of 147.

3.6.2 Sampling size

The sample size is very critical to any empirical study in which the goal is to make inferences about a population from a sample. The bank is made up of the following departments: Human Resources & Administration, Accounting & Finance, Operations, Credit, Internal Audit, Microfinance, ICT and Marketing. The researcher's sampling frame was made up of all 140 staff from all 7 branches and the head office and the 7 members of the Board of Directors. All the 10 executive management members who are the heads of department including the General Manager and his special assistant and the 7 Directors were selected purposively due to their knowledge and access to exclusive and sensitive information relevant to this study (Table 1). 4 senior staff made up of the Branch Manager, Operations officer, Credit Officer and Internal Auditor were

selected purposively from the branches for the same reasons. This produced a sample size of 45 from a population of 147.

3.7 Data presentation and analysis procedures

Analysis is the ability to break down data and to clarify the nature of the component parts and the relationship between them. The data was analyzed through the use of statistical techniques and computer software technique. The researcher used Statistical Package for the Social Sciences (S.P.S.S), and Microsoft Excel to identify trends. Analysis was done to obtain frequencies and percentages of responses to assist in identifying trends that appeared from responses. This was used to generate tables, pie charts and other relevant graphs.

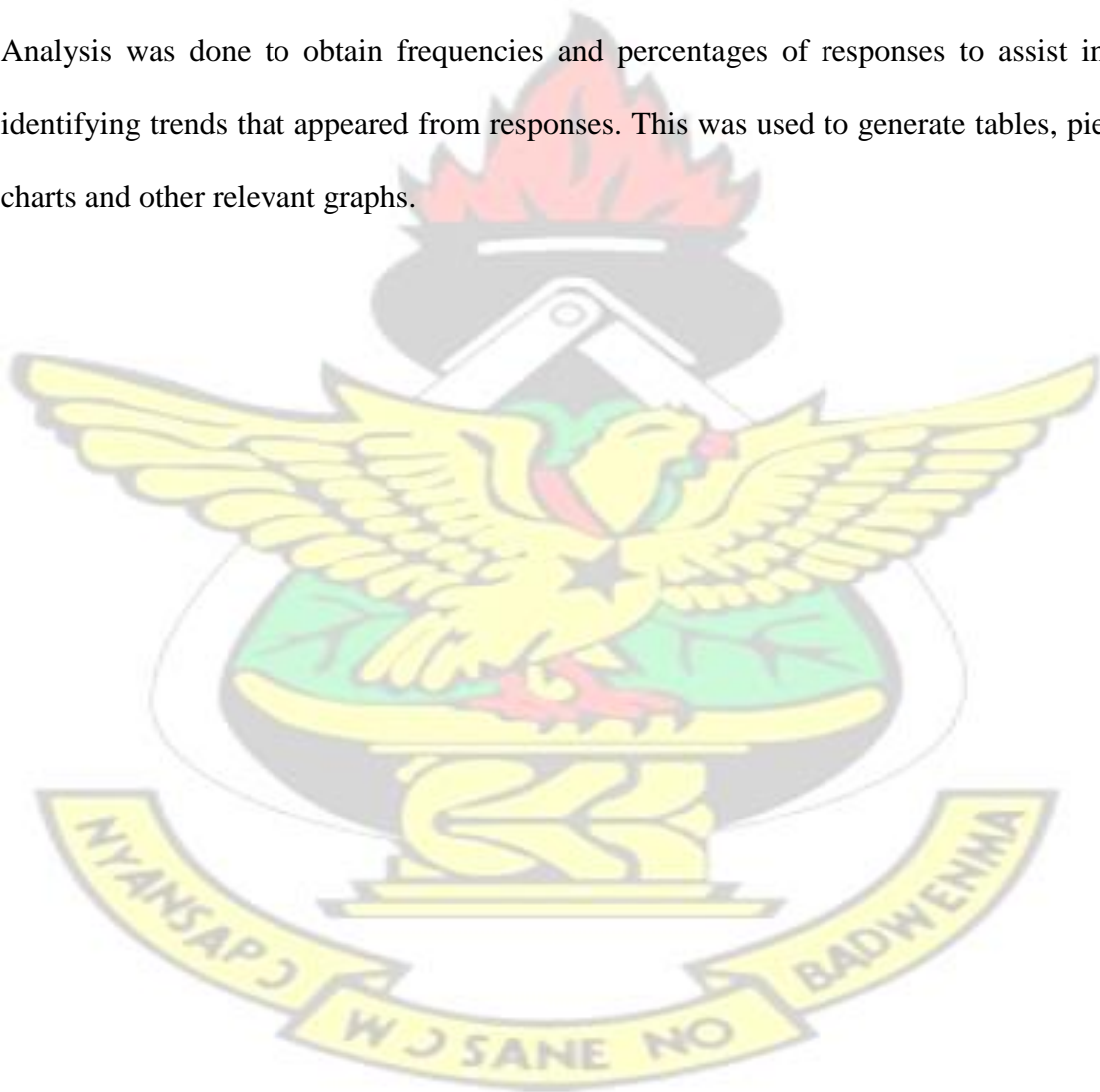


Table 1: Respondents sampled for the study

ROLES	BRANCHES							TOTAL
	Ash Town	Pankrono	Kronum Abuohia	Wiamoase	Tetrem	Boamang	Agona	
Branch Managers	1	1	1	1	1	1	1	7
Operations Officers	1	1	1	1	1	1	1	7
Credit Officers	1	1	1	1	1	1	1	7
Internal Auditors	1	1	1	1	1	1	1	7
<i>Total</i>	<i>4</i>	<i>4</i>	<i>4</i>	<i>4</i>	<i>4</i>	<i>4</i>	<i>4</i>	<i>28</i>
Executive Management	10							10
Board of Directors	7							7
GRAND TOTAL								45

3.8 Organizational profile of Okomfo Anokye Rural Bank (OARB)

3.8.1 Historical background

Okomfo Anokye Rural Bank Ltd (OARB) was incorporated as a Limited Liability Company and issued with a Certificate of Incorporation (No. 21,793) under the Companies Code 1963 (Act 179) on January 18, 1983. On February 7, 1983 the Bank of Ghana issued the license to operate Business of Banking to OARB. The Bank received its Certificate to Commence Business on July 6, 1983 from the Registrar of Companies. The bank has its Head Office at Wiamoase. The Bank has seven (7) Branches and one (1) Mobilization Centre at the following locations; Ashanti New Town, Kronum and Pankrono in the Kumasi Metropolitan Assembly, Agona and Wiamoase in the Sekyere South District, then Boamang and Tetrem in the Afigya Kwabre District of Ashanti Region. The OARB also has one (1) Mobilization Centre located at Bepoase in the Sekyere South District and one (1) Mobilization Desk at

Ahwiaa Yam Market in Kwabre East District. The OARB has plans to establish two (2) more branches in viable locations in urban centres, including Suame in the next five years. The services provided by OARB are: Current accounts for individuals and organizations, Savings Account, Susu savings and loans, Fixed Deposits, Daakye Anidaso savings, Meba Daakye savings, Short term Funeral loans, SME/Microfinance loans – credit with education, Salary earners loans, and Christmas loans. The bank also accepts custody of wills and valuables and acts as executors of estates (<http://okomfoanokyeruralbank.com/brief-history/>). The clientele base of the bank are mainly salaried workers of government and local businesses, farmers, small and medium sized businesses, traders and artisans (mainly kente weavers), private schools and local churches.

Fig. 1: Headquarters of Okomfo Anokye Rural Bank-Wiamoase



The bank's External Auditors are Messrs Kan Dapaah and Partners, Chartered Accountants. The Bank's Solicitors are Kwasi Bempa and Partners while its Bankers are

ARB Apex Bank and Ecobank Ghana Limited. Currently, the Bank operates under the Ghana Banking Act 2004(Act 673) and Banking Amendment Act 2007 (Act 738).

Highlights of the Growth/ Operational Results of the bank are presented below.

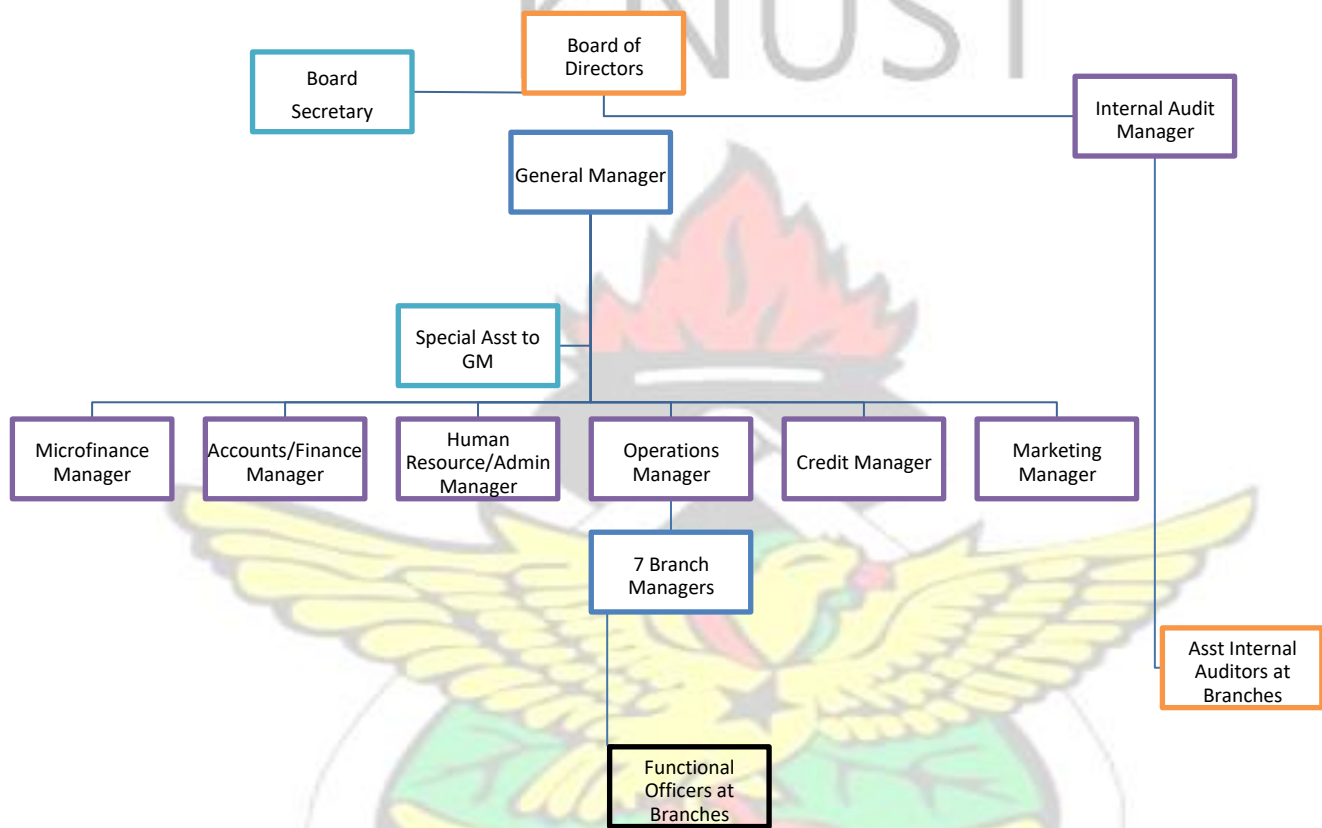
3.8.2 Governance Structure of OARB

OARB has a seven member Board of Directors made up of professionals in Accountancy, Law, Education, Banking and Academia. It has a Board Secretary. The General Manager has overall responsibility for the day to day operations of the bank but is not a board member even though he sits in all board meetings. There are seven departments headed by a manager at the head office under whom there are functional officers at each of the branches, including the branch manager, all reporting to the Operations Manager, except the assistant internal auditors that report to the Internal Audit Manager at the head office.

The Internal Audit Manager reports to the Board's Audit and Governance sub-Committee.

The Board has put in place a governance structure that facilitates the Internal Auditor's independence as a way of empowering him to be objective and firm. The department's relevance is obvious from its line of reporting and authority. It plays the role of the "watchman" of controls and governance practices to ensure achievement of the bank's objectives.

Fig. 2: Organization chart of Okomfo Anokye Rural Bank



Source: Author's construct

3.8.3 Legal Capacity and Ownership of Okomfo Anokye Rural Bank

The OARB is a registered Limited Liability Company with authorized ordinary shares of 5 billion of no par value. The unit price of its shares is currently GH¢.02. The minimum shareholdings are 250 shares per shareholder and the maximum is not more than 10% of the stated capital for individual natural persons. A family may be able to purchase 40% of

the stated capital while a company may purchase 50%. Sale of shares is open to all adults above 18 years who desire to become a shareholder. The stated capital as at 31/12/2013 is GH¢289,107 and has been increased to GH¢740,496 as at 31/12/2014.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter presents the analysis and discussions of the data collected for the study. The researcher analyzed the findings from the data gathered and linked it to the literature review in chapter two and the research questions in chapter 1, so as to be able to measure if the objectives of the research work were met.

The population of the study is made up of directors, management and staffs all the 7 branches and the head office, namely; Wiameoase, Ashanti New Town, Kronum Abuohia, Pankrono, Tetrem, Boamang and Agona. The total population of the work was 147 which is the entire work force in all the departments of OARB. The population was categorized into Directors, Executive Management and 4 key roles at the branches. Table 2 below indicates the sample size used for the study and response rate of each of the identified categories. All respondents answered the questionnaires sent to them, yielding a total response rate of 100%, though among the returned questionnaires, some respondents refrained from answering certain questions.

Table 2: Role/category of staff and response rate

Roles	Number Distributed	Number Received	Rate of Response (%)
Branch Managers	7	7	100
Operations Officers	7	7	100
Credit Officers	7	7	100
Internal Auditors	7	7	100
Executive Management	10	10	100
Board of Directors	7	7	100
TOTAL	45	45	100

Source: Author's Construct (2015)

4.1 GENERAL ISSUES

The characteristics of respondents of the study included gender, age, educational levels, branches the respondents work for and their department/Departments.

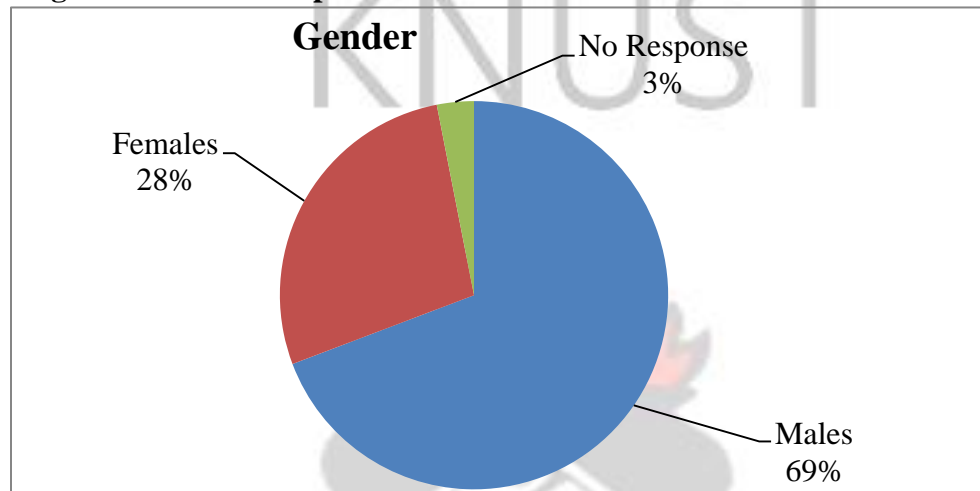
4.1.1 Gender of respondents

Fig. 2 below shows responses used in the study based on gender. The figure shows that 69% of the respondents used were males, 28% were females and 3% of the respondents did not indicate their gender identity. The gender distribution reflects the composition of staff of OARB, with a male/female ratio of approximately 3:1 respectively.

Masculine and feminine cultures and individuals generally differ in how they communicate with others. For example, feminine people tend to self-disclose more often than masculine people, and in more intimate details. Likewise, feminine people tend to communicate more affection, and with greater intimacy and confidence than masculine people. Generally speaking, feminine people communicate more and prioritize communication than

masculine people. The ratio of more males than females will reflect in the responses in a manner devoid of affection considerations. Boundless (2015)

Fig. 3: Gender of Respondents

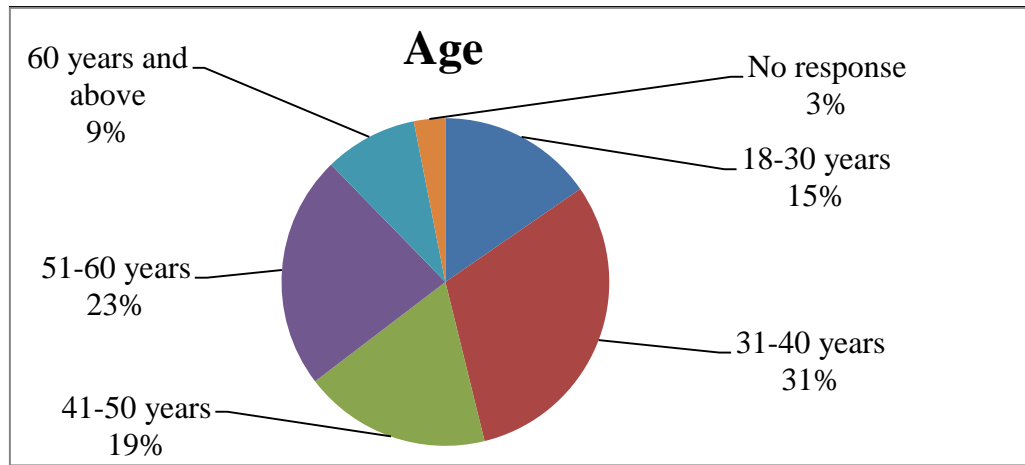


Source: Author's Construct (2015)

4.1.2 Ages of respondents

From Fig. 3 below, 3% of respondents used in the study did not indicate their ages. Meanwhile, the age distributions were such that majority of the respondents (31%) fell within the year group 31 – 40 years, followed by the year groups 51 – 60 years (23%), 41 – 50 years (19%), 18 – 30 years (15%) and 9% recorded for those who were 60 years and above. This reveals the age structure of OARB. It could be seen from the figure that 51% of the respondents were 41 years and above, whiles from 18 – 40 years constituted 48% of the respondents. This is an indication of a fair distribution, but slightly aging institution, which needs to be replacing its retiring staff with people within the youth bracket (18-30 years) which is currently 15%.

Fig 4: Ages of Respondents



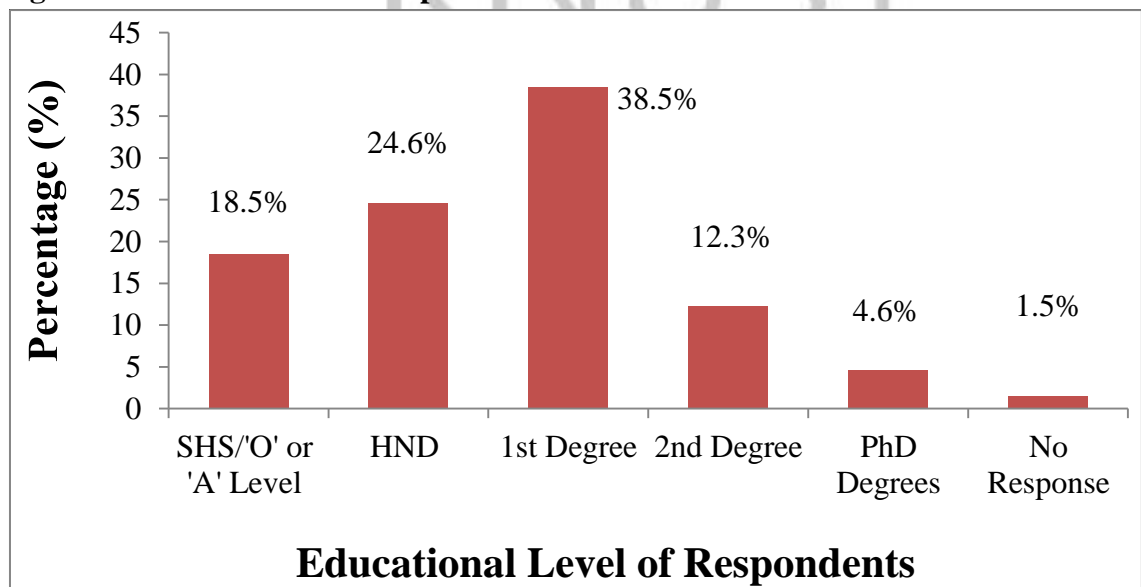
Source: Author's Construct (2015)

4.1.3 Level of education

From the survey, data reveal that majority of the respondents sampled for this study from OARB were 1st Degree holders (38.5%), while 4.6 % of the respondents were PhD holders. 1.5% of respondents abstained from answering this questionnaire item, and did not indicate their level of education. (Fig. 4) It was however gathered that 18.5% of respondents used were holders of either SHS, 'O' or 'A' level certificate holders, 24.6% hold HND certificates, 12.3% had obtained their 2nd Degrees. It follows that 81.6% had obtained at most a Degree, with 16.9% recorded for 2nd Degree and PhD degree. This is typical of most banking and finance institutions of which OARB is a part. In most banking institutions, since most of the daily activities are routine, they do not require any higher form of academic qualification to discharge such duties. Thus, higher academic qualifications are normally needed for the few management positions and Board of

Directors. All the respondents used in this study are educated up to at least Senior High School. The lower academic group of respondents were paid more attention to enable them appreciate the purpose of the study and to be able to answer the questions well.

Fig 5: Educational levels of respondents



Source: Author's Construct (2015)

In examining the research objectives, the study first looked at some general issues about internal audit and corporate governance. The study considered the internal audit charter of OARB as a main source of information with regard to the effectiveness in performing their functions; and the roles of the internal audit department that formed the basis of the questionnaire for the related objectives of the study.

4.1.4 The Internal Audit Charter of OARB

The Internal Audit Charter of OARB is a formal document that serves as a guide to the Internal Audit Department. The preamble to the charter says that;

‘This internal audit charter is drawn and reached in order to make explicit among other things the objectives and functions of the Internal Audit Unit of the bank, its powers, responsibilities and relations with other control functions and the accountability of the Head of the Audit Unit of the bank.’ The relevance, effectiveness and the roles played by the internal audit unit to assist the bank achieve its corporate governance objectives can be assessed by probing into the internal audit charter of the bank as these issues are highlighted in the charter.

4.1.5 Scope of work of Internal Audit Department

The scope of work of the Internal Audit Department is to determine whether the OARB’s network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning effectively. The scope of work is determined by the Board of Directors and influenced by guidance from ARB Apex Bank/Bank of Ghana Internal audit guidelines for Rural Banks. The study wanted to find out who determines the scope of work performed by the Internal Audit Department of OARB. The study wanted to find out about the independence of the department and how it is impacting on the governance structure. The survey revealed that 50.8% of respondents said it is management that determines the scope of work for the Internal Audit Department; 32.3% said it is the responsibility of Internal Audit Department; 10.8% said it is the work of management together with the Internal Audit Department; 1.5% said the Audit Committee & the Board and 4.6% said it is the Auditor General who determines the scope of work of the Internal Audit Department. It became evident that

50.8% of respondents think that it is management's responsibility to determine the scope of work of the Internal Audit Department, while 20% of audit staff and 42% of finance staff also believes it is management who determines the scope of work of the department.

4.2 RELEVANCE OF INTERNAL AUDIT DEPARTMENT TO OARB

An activity or function is relevant to an organization if that function is so important and connected to the organization in a way that makes that function useful for the organization's purpose. The work of the internal auditor is critical to the work of management and the Board of Directors. The internal audit Department stands at the intersection of management, external auditors, the board of directors and other stakeholders outside the organization, but with interest in the organization. The study therefore evaluated the work of the Internal Audit Department of OARB to ascertain whether or not the department is relevant to the bank by raising a number of issues with respondents.

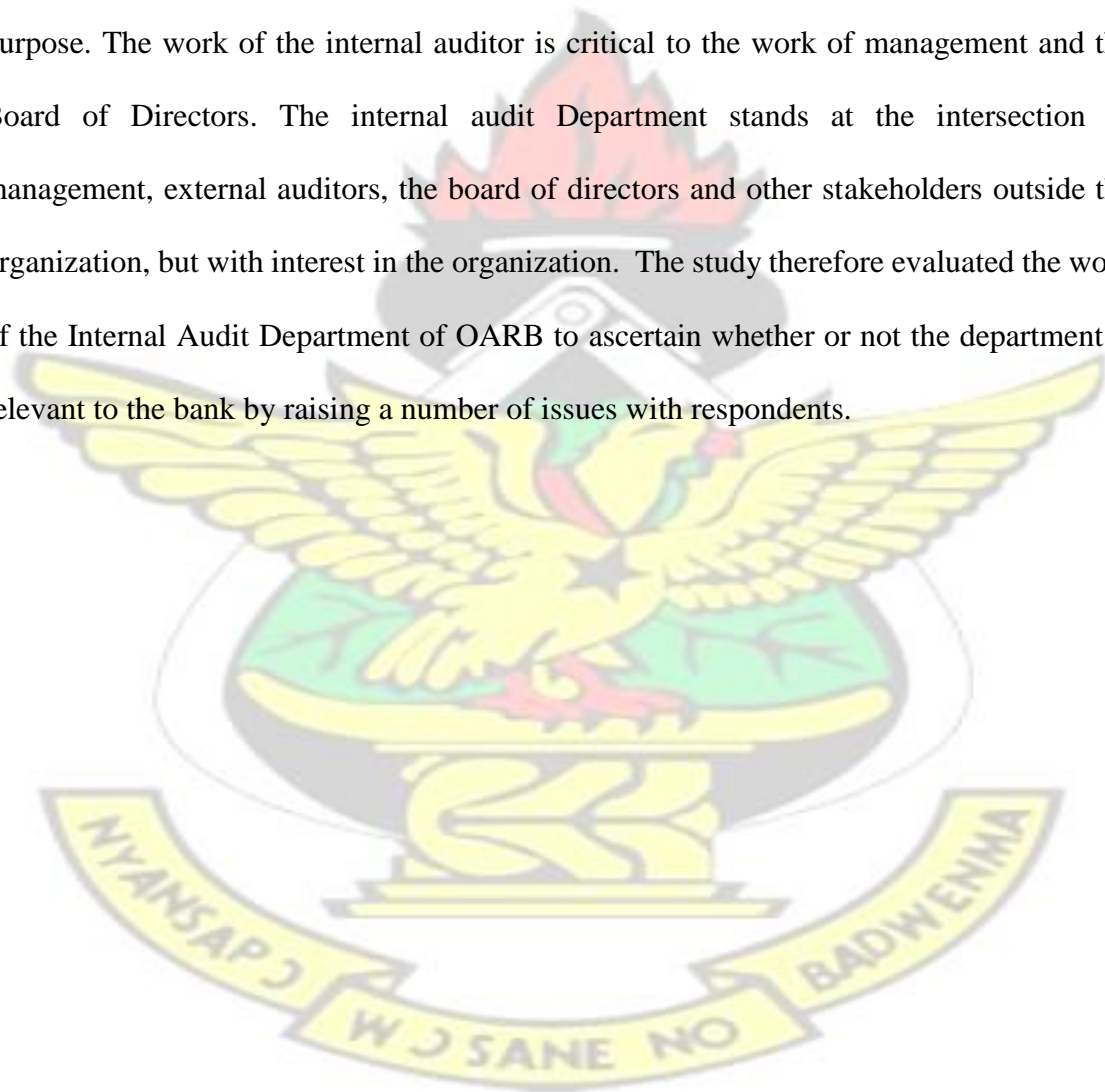


Table 3: Summary of response: Relevance of internal audit function to OARB

	QUESTION	NUMBER OF RESPONSES				
		No Response	Yes	No	Total	% of Yes
1	Do Internal Auditors evaluate and offer recommendations to improve governance processes?	0	31	14	45	68.9%
2	Do Internal Auditors provide recommendations for improvements in compliance with key laws and regulations?	1	35	9	45	77.8%
3	Do Internal Auditors ensure accuracy, integrity & reliability of financial and operational Information?	0	12	33	45	26.7%
4	Does the Internal Audit function ensure strict compliance with policies & procedures of the entity?	0	40	5	45	88.9%
5	Do internal Auditors institute controls to Safeguard Assets and ensure judicious use of the Entity's Resources?	2	36	7	45	80.0%
6	Does the Internal Audit function Facilitate the prevention and detection of fraud?	1	32	12	45	77.1%
7	Does the Internal Audit function Assess the effectiveness of the design, implementation and maintenance of an entity's Internal Controls?	1	25	19	45	55.6%
8	Does the internal Audit function Ensure adequacy of risks management in the Entity?	3	22	20	45	48.9%
9	Do internal auditors Assist management in implementation of strategy?	2	35	8	45	77.8%
	AVERAGE PERCENTAGE OF "YES" RESPONSE					66.2%

4.2.1 Recommendation for improvement in governance process

When respondents were asked whether the internal audit department evaluate and offer recommendations to improve governance processes in the entity, the response was affirmative. 68.9% of the respondents said yes. However, 31.1% replied no, (Table 3).

This finding is in agreement with the IIA's position referred to by Julien, R. & Rieger, L in their corporate governance article in September 2011 cited in paragraph 2.2 of this paper in which they said that "Internal auditing, according to the institute, "helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

4.2.2 Recommendations for improvement to compliance with key laws and regulations

In every cooperate entity, compliance to national, international and cooperate laws and regulations are very necessary for the avoidance of litigations against the company. When the researcher asked the respondents to state whether or not internal auditors provide recommendations for improvements in compliance with key laws and regulations 77.8% said yes, 20.0% said no and 2.2% did not respond.(table3). When the audit committee, however, was interrogated, 94.6% of them indicated that ensuring compliance was not their duty, rather, theirs was to offer recommendations that would enable management to ensure compliance so that litigations against the company was minimized. This was a positive development since the audit committee could identify their importance regarding compliance to laws and regulations.

4.2.3 Ensuring Accuracy, integrity and reliability of financial and operational information

In business institutions, operations are guided by accuracy, integrity and reliability.

73.3% of the respondents do not think that Internal Auditors ensure accuracy, integrity & reliability of financial and operational Information, 26.7% thinks they do (Table 3). Thus, most workers at the bank do not realize that accuracy, integrity and reliability of operational and financial information are the responsibility of the internal auditor. However, members of the audit department could identify that this was their function agreeing with Vos, 1997, that the objective of internal auditor is to appraise effectiveness of financial and operating control, authenticate compliance with company policies, procedure, safeguard assets, and verify the accuracy and consistency of organization's external and internal reports.

Also 46.7% of the respondents think that it is the responsibility of the HR department to ensure accuracy, integrity and reliability of financial and operational information; 26.7% thinks it is the responsibility of the internal auditor; 22.2% identified management as the executor of that responsibility; 4.4% did not answer (Table 4). It follows that the word information in the questionnaire item might have misled most of the respondents to choose the HR department, since they are sole responsible for public relations, hence handle significant quantum of information. Thus, most workers at the bank do not realize that accuracy, integrity and reliability of operational and financial information are the responsibility of the internal auditor. However, members of the audit department could identify that this was their function.

Table 4: Response to whether the internal audit department ensures the accuracy, integrity and reliability of financial and operational information

The audit department ensures accuracy, integrity & reliability of financial and operational Information of OARB		
Response	Number of Response	Percent (%)
No Response	2	4.4
Management	10	22.2
Internal Audit Department	12	26.7
HR Department	21	46.7
Total	45	100

4.2.4 Ensuring strict compliance with internal control policies and procedures.

Respondents overwhelmingly indicated that the internal audit department ensures compliance to policies and procedures. 88.9% of the respondents revealed that the internal audit department ensures compliance to company's policies and procedures, while the rest, 11.1%, responded that the internal audit department does not perform this function. Here, the internal auditor indicated that, the department functions like a quality control section by identifying deviations from laid down procedures, and making recommendations to management for appropriate actions. Established codes of corporate governance such as the IFAC Code or the UK's Combined Code highlight the need for businesses to maintain good systems of internal control to manage the risks the company

faces. It is seen as part of good corporate governance to have an internal audit function to assess and monitor internal control policies and procedures.

4.2.5 Controls to Safeguard assets and ensure judicious use of resources

From the study, at least, 80.0% of the respondents associated instituting controls to the safeguarding and ensuring judicious use of resources with the internal auditors and 15.6% did not (Table 3). Thus, most of them indicated that the operations of the internal audit department ensure that resources are not misused, and wastes are minimized. The ultimate responsibility for corporate governance lies directly with the board of directors. The process of managing corporate governance is usually handled by the board of directors. The organization may employ auditors to test and monitor internal controls. Internal auditors are charged with ensuring that corporate processes and associated controls are functioning as intended..... (Austin, 2012). So it is incorrect when majority of respondents believe that it is the internal auditors that institute controls to safeguard assets and ensure judicious use of the Entity's Resources? Also From the survey, 53.3% of the respondents revealed that management together with the internal audit department are responsible for safeguarding and ensuring the judicious use of the organization's resources; 26.7% said that it is the work of management; 11.1% said it is the work of the internal audit department; and 8.9% did not know what to choose as answer to the questionnaire item (Table 5). From the study, at least, 73.3% of the respondents associated the safeguarding and ensuring judicious use of resources with the internal auditors. Thus, most of them indicated that the operations of the internal audit department ensure that resources are not misused, and wastes are minimized.

Table 5: Response to whether the internal audit department ensures judicious use of resources

Safeguarding and ensuring judicious use of the Entity's Resources is the responsibility of the audit internal audit department		
Response	Number of Response	Percent (%)
No Response	4	8.9
Internal Audit Department	5	11.1
Management	12	26.7
Management with the help of internal audit department	24	53.3
Total	45	100

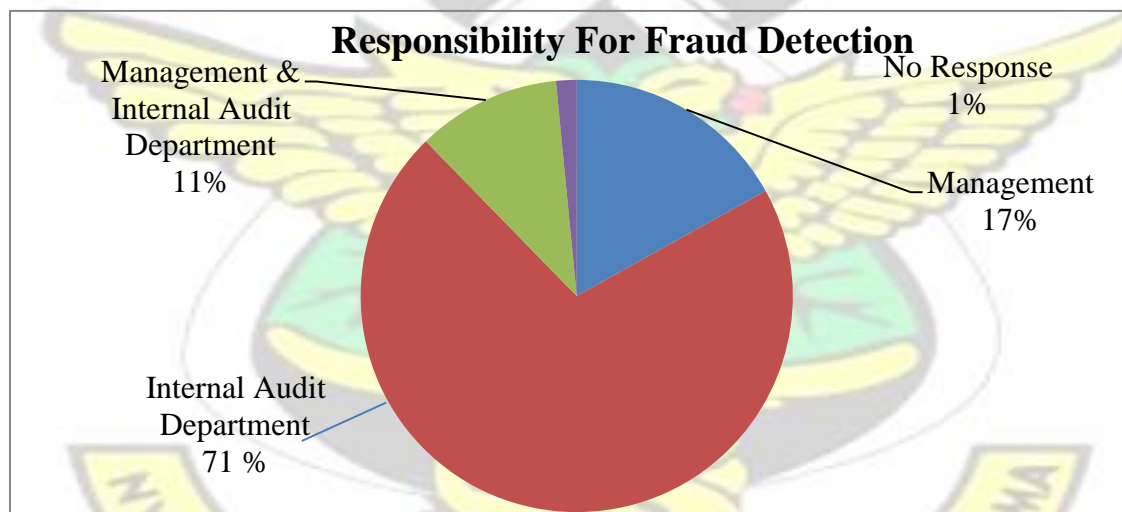
4.2.6 Fraud prevention, deterrence and detection

The other issue that the study examined is the responsibility for detecting fraud. Fraud is prevented or minimized when the Board ensures that control systems are put in place and they are fully implemented and monitored for compliance. Fraud affects the going concern of businesses and therefore, it is one of the risk areas that corporate governance is particularly concerned about. Fig. 5 shows that, 17% thinks it is Management responsibility for detecting fraud, 71% said it is Internal Audit Department's responsibility, 11% indicated both Internal Audit Department and Management, whereas 1% abstained from answering. Since More than 70% do not know whose duty it is to prevent and detect fraud, it is a sign of control weakness due to lack of knowledge of the subject area among the employees.

The researcher therefore, interviewed some audit and finance staff on the issue and found out that 45% and 52% of audit and finance staff respectively indicated that it is the responsibility of the internal audit department to detect and deter fraud. Going by the

responses from the audit and finance staff, there is the need for serious education for them. However, the good news is that those at the managerial level know it is their responsibility. This is because, when 8 members of management staff were interviewed on fraud detection, 100% of them said it is the responsibility of management, which is gratifying. According to Unegbu & Obi (2007), internal audit measures, analyses and evaluates the efficiency and effectiveness of other controls established by management in order to ensure smooth administration, control cost minimization, and ensure capacity utilization and maximum benefit derivation. In other words, it is the Board's responsibility to put adequate control systems in place that can prevent and detect fraud.

Fig 6: Detecting and deterrence of fraud



Source: Author's Construct (2015)

4.2.7 Assessing the effectiveness of design, implementation and maintenance of internal controls.

The operations of the internal audit committee is hinged upon the internal controls. The internal controls help the auditor to function within the confines of the company's policy.

For instance, strong and visible internal controls detect fraud easily, and tends to deter fraudsters. 44.8% of the respondents said that the internal auditors find it difficult to assess the effectiveness of the design, implementation and maintenance of internal controls (Table 3). Meanwhile, 55.6% indicated that the audit department assesses the effectiveness of the parameters of internal controls.

4.2.8 Risk management

Risk is generally defined as a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, that may prevent organizations to achieve their objectives. It is the responsibility of management to ensure or prevent the occurrence of these risks. They do so through the internal audit Department and this makes the internal audit Department very relevant to the governance structure of organizations. The researcher therefore asked the respondents whether the Internal audit department ensure adequacy of risk management in the bank. Only 48.9% agreed and the rest disagreed. Risk management is an area less understood in industry so such responses were expected. Overall 66.32% of the respondents believe that the internal audit function when evaluated is relevant to OARB based on the functions specified in the bank's audit charter.

4.3 EFFECTIVENESS OF INTERNAL AUDIT DEPARTMENT

Effectiveness is the degree to which an activity is successful in producing the desired result or success. The effectiveness of any internal audit department is measured by reference to the functions outlined in the internal audit charter. Internal Audit is of prime concern to managements across the corporate world because of its impact on corporate governance.

Table 6: Summary of responses: Effectiveness of the internal audit function to**OARB**

	QUESTION	NUMBER OF RESPONSES				
		No Response	Yes	No	Total	% of Yes
1	Do Internal Auditors ensure the integrity and accuracy of the bank's financial statements and its accounting, financial reporting and disclosure of policies?	1	31	13	45	68.9%
2	Do Internal Auditors ensure soundness of the bank's system of internal controls which the bank had established regarding finance and accounting matters and their effective implementation?	3	33	9	45	73.3%
3	Do Internal Auditors ensure the bank's compliance with statutory and policy manual requirements?	0	36	9	45	80.0%
4	Do Internal Auditors collaborate with the bank's external auditors as well as other regulatory bodies and inspectors?	0	43	2	45	95.6%
5	Do internal Auditors monitor efficiency, cost control and budgetary prudence?	1	18	26	45	40.0%
6	Do Internal Auditors safeguard the bank's assets as well as the interest and rights of the bank's customers and staff?	2	35	8	45	77.8%
7	Do Internal Auditors conduct special investigations and report in matters in financial malfeasance and general operational malpractice?	0	38	7	45	84.4%
8	Do Internal Auditors review the adequacy of controls in the entity's IT systems?	0	20	25	45	44.4%
	AVERAGE PERCENTAGE OF "YES" RESPONSE					70.6%

4.3.1 Integrity and Accuracy of the Bank's Financial Statements

Internal audit function is defined in ISA 610 as an appraisal or monitoring activity established within an entity as a service to the entity. It functions by, amongst other things, examining, evaluating and reporting to management and the directors on the adequacy and effectiveness of components of the accounting and internal control systems. The respondents were asked whether Internal Auditors ensure the integrity and accuracy of the bank's financial statements and its accounting, financial reporting and disclosure of policies. 68.9% said yes while 28.9% said no (Table 6). This is an obvious function in which it was expected that more respondents will agree that it is performed by the internal auditors.

4.3.2 Ensuring soundness of internal control systems

Tracey, 1994, is of the view that, it is the responsibility of the internal auditor to evaluate how well the accounting system works and also assess the effectiveness and efficiency of operations in the organization. The respondents were asked whether Internal Auditors ensure soundness of the bank's system of internal controls which the bank had established regarding finance and accounting matters and their effective implementation. As expected a large number, 73.3% confirmed that the Internal Auditors do so while 20.0% said no (Table 6).

4.3.3 Compliance with Statutory and Policy Manual requirements

From chapter 2, Unegbu and Obi (2007) defined internal audit as part of the internal control system designed by management of an organization to ensure compliance to stipulated work procedure and as aid to management. The respondents were asked whether Internal

Auditors ensure the banks compliance with statutory and policy manual requirements. 80.0% said yes and 20% no (Table 6).

4.3.4 Collaboration with External Auditors, regulatory bodies and inspectors Internal auditors may be involved in financial audits, focusing on the audit of items in the statement of comprehensive income and statement of financial position. When the internal auditors perform this type of work, they may duplicate work that the external auditors might otherwise be expected to do. The external auditors might therefore be able to rely on the work of the internal auditors in reaching their audit conclusion (ISA 610). The study revealed that 95.6% of the respondents are clear in their minds that there is a collaboration of internal auditors with external auditors (Table 6). Only 4.4% said no to this question which is not surprising as external auditors obviously deal closely with internal auditors when evaluating their reports in order to form an opinion whether or not to place reliance on the work of the internal auditors.

4.3.5 Monitoring efficiency, cost control and budgetary prudence.

The internal audit charter of OARB requires internal auditors to monitor efficiency, control cost and maintain budgetary prudence. Surprisingly only 40.0% responded in the affirmative while 60.0% said no (Table 6), meaning that they don't find the internal audit staff bordering themselves with monitoring efficiency, cost control and budgetary control activities. This aspect of the function of internal audit of OARB needs to be looked at.

4.3.6 Conducting Special investigations

A few of the respondents (15.6%) did not identify special investigations as one of the functions of the internal auditors that measure their effectiveness (Table 6). However,

84.4% said the auditors used to conduct such special investigations.

4.3.7 Review of the Adequacy of controls in OARB's IT system

The internal audit charter of OARB requires internal auditors to review the adequacy of controls in the bank's Information Technology (IT) system. This is another functional area where less than half of the respondents said yes (44.4%) (Table 6), meaning that majority do not see the internal auditors being effective in reviewing controls in the bank's IT systems. It is presumed that the internal auditors lack IT knowledge to be effective in this area, but the function can be outsourced when required.

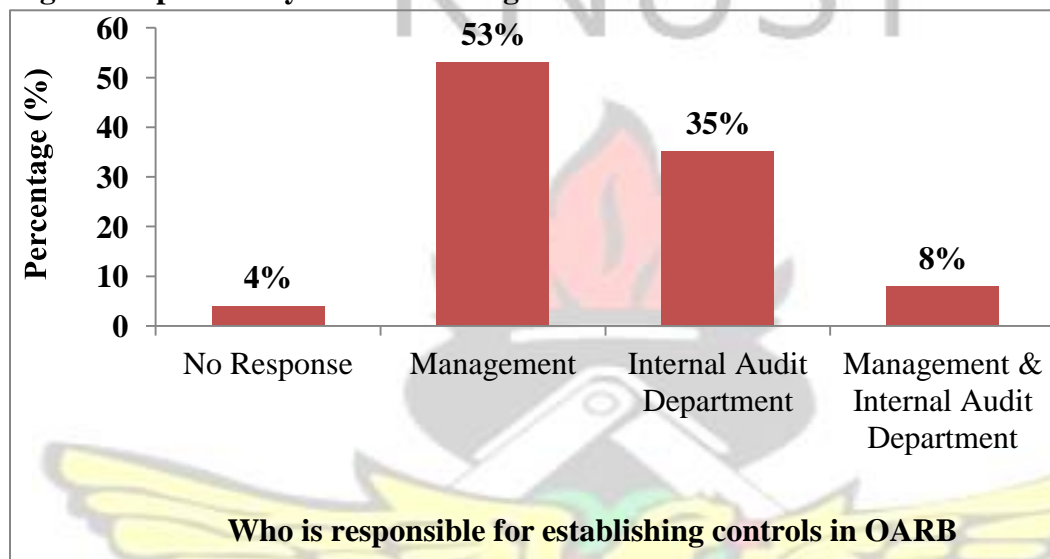
Overall, 70.6% of the respondents are of the view that the internal audit department is effective in the performance of their functions.

4.3.8 Controls in OARB

The study in addition sought respondents' views about the institution of controls in OARB as controls are mechanism for ensuring effectiveness and efficiency. Fig. 8 shows that from the study, 4% did not respond to the question; 53% indicated that it is management responsibility to institute controls; 35% said it is the internal audit department; and 8% said it is both management and internal audit Department. When internal audit staff were asked of whose responsibility it is to institute controls in OARB, 74% of them said it is managements responsibility, 16% said the internal audit Department itself, where as 10% of them said it is both management and the internal audit Department (Fig. 6). The APB guideline for internal auditors clearly states that the internal auditor should identify and evaluate the organization's internal control system as a basis for reporting upon its adequacy and effectiveness and not to institute controls. It was also observed, when the

institute's internal audit file was examined, that they evaluate the adequacy of control systems put in place by management and whether or not they are effective in relation to OARB's exposure to risk in the various functions of the organization's operations. Where they thought the controls are inadequate, they made recommendations.

Fig. 7: Responsibility for establishing controls



Source: Author's Construct

From the analysis (Fig. 6 above & Table 7 & 8 below), the staff knows the respective responsibilities of management and internal audit Department. However, there are almost the same percentage of respondents who swap the responsibilities of management and internal audit. 30% of the internal auditors interviewed said it is the responsibility of management and 70% of them said it is the internal audit itself.

Table 7: Effectiveness of Controls

Responses	Frequency	Percent (%)
No Response	1	2.2
Management	11	24.4
Internal Audit Department	28	62.2
Both Management & Internal Audit Dept	3	6.7
Internal Audit Unit & Finance Dept.	2	4.4

Total	45	100
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Source: Author's Construct (2015)

4.4. ROLES PLAYED BY INTERNAL AUDIT TO HELP ACHIEVE CORPORATE GOVERNANCE OBJECTIVES

Table 8: Summary of responses: Roles of the internal audit function to help achieve corporate governance objectives of OARB

	QUESTION	NUMBER OF RESPONSES				
		No Response	Yes	No	Total	% of Yes
1	Is it the duty of the internal Audit Unit of the bank to draw up an audit programme and plan to guide the activities of the audit unit for the accounting year?	0	43	2	45	95.6%
2	Is the Audit plan approved by the board through the boards' sub-committee on audit and governance?	0	36	9	45	80.0%
3	Does the Internal Audit Unit report periodically to the board on its activities through the audit and governance sub-committee?	0	32	13	45	71.1%
4	Does the Internal Audit Unit make suitable recommendations for the continuous improvement of and adherence to the banks' policies, procedures and practices of all levels?	0	25	20	45	56.6%
5	Does Internal Audit Unit undertake special assignments as requested by the board or as a matter of management interest?	0	41	4	45	91.1%
6	Is the Internal Audit Unit of the bank an independent unit that reports directly to the board?	0	44	1	45	97.8%
7	Does the internal Audit unit Assurance Services such as risk assessments and advice management on how to mitigate the impact of risks identified?	2	36	7	45	80.0%
8	Does the internal audit unit perform consulting services to management such as counsel, advice, facilitation, and training?	0	22	23	45	48.9%
9	Does the Audit and Governance Sub-Committee review and discuss both Management and External Auditors, audited annual financial statements before they are released?	0	38	7	45	84.4%

	AVERAGE RESPONSE	PERCENTAGE	OF	"YES"					78.3%
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4.4.1 Audit Program and Audit Plan

The internal audit charter again requires internal audit to draw up an audit programme and audit plan to guide the activities of the audit unit for the accounting year. Audit program are lists of audit procedures to be performed by audit staff in order to obtain sufficient appropriate evidence. The individual procedures are determined after obtaining an understanding of the accounting system and determining the audit strategy to be followed. It is also defined as a set of procedures (evidence gathering steps) that an auditor believes is necessary to perform to obtain reasonable assurance that the financial statements are not affected by material misstatements.

Audit planning is a vital area of the audit primarily conducted at the beginning of an audit process to ensure that appropriate attention is devoted to important areas, potential problems are promptly identified, work is completed expeditiously and work is properly coordinated. 95.6% of the respondents believed that the internal auditors draw up an audit programme and plan to guide the activities of the audit unit for the accounting year while 4.4% disagreed they do (Table 8).

4.4.2 Approval of the Audit programme and Plan

The Internal audit charter requires the audit program and plan to be approved by the board's sub-committee on audit and governance. The internal audit process begins with the Risk Based Audit Plan, which is updated annually and approved by the Audit Committee of the Board of Governors. Once approved, the Plan becomes a guideline for conducting audits in the coming year. In addition to the audits performed under the Plan, Internal Audit also

conducts special audits and consulting work on demand. (University of Ottawa, Internal Audit office) (Accessed 10 July 2015). 80% of the respondents know that the Board's sub-committee on audit and governance do approve the audit programme and plan while 20% did not know (Table 8).

4.4.3 Reporting to the Board

Preparing and presenting periodic reports to the Board of Directors, and summarizing the status and the results of audit activities are a function of the internal audit Department. This is according to the audit charter. Findings during the audit are communicated to the board's audit committee, after the auditee has been given the opportunity to respond to the queries raised during an exit meeting and then in writing. Their reports are structured in such a way that, the finding (shortcomings identified), the process required, the existing condition at the time of audit, the cause of the shortcoming and its effect, recommendation from the audit and management's response are easily identified and addressed. 71.1% of the respondents agree that the Internal Auditors report to the board level through the audit and governance sub-committee, while 28.9% said no (Table 8).

4.4.4 Recommendations for continuous improvement

The justification for internal audit may come from, among other things ensuring and providing recommendations for improvements in compliance with key laws and regulations, thereby reducing the risk of legal action or action by the regulators against the entity. 55.6% of the respondents believe that the Internal Auditors make suitable recommendations for the continuous improvement of and adherence to the banks' policies, procedures and practices of all levels. Nearly half of the respondents (44.4%) do not agree

that the internal auditors make these recommendations, probably because they don't receive copies of the internal audit reports.

4.4.5 Special assignments as requested by the board

Most of the respondents (91.1.0%) identify special assignments (or investigations) as one of the functions of the internal auditors. However, 8.9% said the auditors used to conduct such special investigations. The situation could be due to the fact that there might have been recent fraud cases in the bank that have been investigated as a special assignment.

4.4.6 Is the Internal Audit function Independent reporting directly to the Board?

The process of managing corporate governance is usually handled by the board of directors. The organization may employ auditors to test and monitor internal controls. Internal auditors are charged with ensuring that corporate processes and associated controls are functioning as intended (Austin, 2012). The internal auditor reports to the Audit Committee of the board and helps the organization to achieve its objectives using a systematic approach to evaluate and improve the effectiveness of risk management, systems, controls, and the governance process. (IIA, 2004). 97.8% of the respondents agree that the Internal Auditor is independent of management and reports directly to the board while 2.2% said no (Table 8), meaning that they think the internal Auditor reports to the General Manager. The minority view is as a result of visible day to day control of activities by the General Manager, for example approving their expense claims.

4.4.7 Assurance Services

The Board's sub-committee on audit and governance is the operating committee in all matters of audit and corporate governance. Internal Auditors are required to perform Assurance Services to management such as risk assessment and reporting findings to

management. 80.0% of the respondents are aware that the Internal Auditor performs risk assessment and report findings to management (Table 8).

4.4.8 Consulting Services

Consulting service is defined as:

“Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training (Khan, W.M.A. 2012)”. Only 48.9% of the respondents agree that the internal auditors provide such consulting services (Table 8). This is evidence that the auditors might lack the knowledge and expertise to provide such services or management does not regard the auditors as senior enough in the bank to receive counsel and training from them.

4.4.9 Audit and Governance sub-committee Review of reports

84.4% of the respondents agree that the Audit sub-committee of the Board review and discuss management, internal and external auditors’ reports and financial statements before they are released for appropriate publishing, while 15.6% did not agree.

4.5 CHALLENGES AND PROBLEMS FACED BY THE INTERNAL AUDIT FUNCTION

Table 9: Summary of responses: Challenges and problems faced by the internal audit function of OARB

NUMBER OF RESPONSES				
QUESTION				
	Total	%	No of Response	No Yes

1	Is the Internal Audit unit adequately resourced with staff and finance to enable them perform their functions?	123	21	45	51.1%		
2	Does Management of OARB support the audit program and ensure that the work is performed?	124	20	45	53.3%		
3	Do the Internal Audit staffs have adequate training and updated skills required for their job?	240	345	88.9%			
4	Is there a cordial relationship between Internal audit staff and management and other senior members of staff?	125	19	45	55.6%		
5	Are Internal Audit reports well accepted and given proper attention by management and the board?	135	945	77.8%			
	AVERAGE PERCENTAGE OF RESPONSE				65.3%		"YES"

4.5.1 Is the Internal Audit unit adequately resourced?

“Strapped for resources, yet faced with new challenges”. This is how PricewaterhouseCoopers summarized internal audit budget reductions and constraints in the face of doing more with less as a fragile economy looks to regain its footing (PricewaterhouseCoopers 2009). 51.1% of the respondents agree that the internal audit department is adequately resourced while 48.9% think that they are not adequately resourced. Of course all internal auditors were in the minority (Table 9). They said they require a dedicated departmental vehicle with driver to take them around the branches to perform their duties which is lacking.

4.5.2 Does Management of OARB support the audit program?

Vincins R. A., (2013), writing on the EMERGE Group blog identifies the causes of the problems faced by the internal auditors. He said management does not support the audit program (the executive management team is required to set the audit criteria and support the audit program ISO 19011). Management’s support of the audit program is in the area

of ensuring that the internal auditors are free to audit in line with the program so that sufficient, appropriate audit evidence could be gathered. 53.3% of the respondents are of the opinion that management supports the audit program and ensure that the work is performed while 46.7% thinks otherwise (Table 9). The Board of OARB should work to improve on this high negative perception with improved monitoring of the audit program.

4.5.3 Do the Internal Audit staff have adequate training and updated skills? There are new ways of doing business that keeps on escalating on daily basis. These new developments and requirements require skills and competencies to address them. Skills and experiences are very imperative if internal audit is to perform its role effectively. The researcher therefore examined the skills and experiences necessary to perform audit task. Respondents were asked if in their view, the internal audit Department of OARB has the required skills and experiences necessary to perform their work. 88.9% of the respondents indicated that the Department has the required skills necessary to perform their work; 6.7% of respondents indicated that they do not think the Department has the necessary skills and experiences; 4.4% of respondents did not respond to the question (Table 9). Staffs of the internal audit Department were also questioned on the skills and experiences necessary to enable them carry out their mandate effectively and the survey yielded 91% of them indicating that they have the required and relevant skills and experiences for their duties while 9% claimed imperfection and doubted the relevance of their skills. It follows that the 9% who indicated doubtful behavior about their skills and experiences could be attributed to inferiority complex. Chambers (2009) revealed that the President of the IIA Research Foundation in October/November 2009 discussed some of the significant challenges that he believes internal auditors face during, one of which is realizing skills to

address new requirement in a very dynamic field. Sixty percent (60%) of the respondents who were doubtful about their skills and experiences indicated that such a situation could impact negatively on the performance of the internal audit Department as well as that of OARB. Meanwhile 40% said that it will have no effect on the performance of OARB.

4.5.4 Relationship between Internal audit staff and management

The internal audit should have an open, constructive and cooperative relationship with other staff which supports information sharing relevant to carrying out their mandates. When asked whether the internal audit staff have a cordial relationship with management and other senior members of staff, 55.6% of the respondents said yes while 44.4% said no (Table 9). A “no” response comes when those respondents have witnessed heated arguments over internal audit findings. The researcher found out that these are common when findings reached the audit committee without sufficient opportunity by management to include appropriate responses to the auditors report.

4.5.5 Acceptance of Internal Audit reports

Preparing and presenting periodic reports to the Board of Directors, and summarizing the status and the results of audit activities are a function of the internal audit Department.

The findings during the audit are communicated to the board, when the auditee has been given the opportunity to respond to the queries raised. The internal auditors said some managers put pressure on them to drop some adverse findings with a promise to rectify the anomaly immediately. It is well known that some management staff become hostile to the Internal auditors when adverse findings for which they are painted in bad light reaches the board. 77.8% of the respondents agree that internal audit reports are well accepted and given proper attention by management and the board while 22.2% disagreed (Table 9). Overall,

34.7% % of the respondents are of the opinion that the internal audit department are prone to the usual challenges and problems while 65.3% disagree.

KNUST



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter provides a summary of the findings made from the study. The chapter also provides recommendations for problems identified and deals with the conclusions to the study.

5.1 Summary of Findings

Respondents' characteristics

The study found out that the ratio of male to female used was 3:1. The study also found out that 63% of respondents used were ageing workers (41-60 and above), which is an indication of an ageing institution. The study classified youth as below the ages of 41 for this study because the definition by African Youth Charter is 15-35 years. It was further gathered that majority of respondents used (75%) have had tertiary education, which reflects the true nature of OARB as baking institution requiring higher education as an entry requirement.

5.1.2 Findings to research questions

The study revealed that the OARB has an audit charter which outlines the purpose, scope of work, functions, roles and internal audit relationship and coordination with the external auditors of OARB. It also includes how the internal audit staff plans their work, their reporting, authority and its position within OARB to ensure its independence, etc. Some management and staff of OARB are not aware of the charter and therefore could not know its content. However the Chairman of the audit committee is initiating a program to

organize seminars on the audit charter and other responsibilities of audit and management to management staff in particular and all other staff in general.

The study also gathered that within OARB, many staff believes that it is management that determines the scope of work of the internal audit Department however the audit charter indicates that it is the Audit and governance sub-committee of the board. The reason for this may be that majority of staff do not know who determines the policies and procedures of the Department.

5.1.4 Relevance of Internal Audit Department to OARB

A number of issues were discussed with respondents as regards the relevance of internal audit Department to OARB governing structure. The general observation gathered from the study is that, staffs do recognize the relevance of the internal audit Department to OARB. Majority of respondents either agree or strongly agree that the Internal Audit Department is an integral part of the governance structure. The study finds this as heartwarming, as people will accord them the needed support, once they recognize its relevance. It was also observed that, a good number of the respondents believe that the internal auditors evaluate and offer recommendations to improve governance processes as required in the audit charter. The study also gathered that, the internal audit Department provides recommendation for compliance with key laws and regulation. The study also found out that the internal audit department ensures accuracy, integrity & reliability of financial and operational Information but majority of the staff erroneously believed that it is the internal auditors that institute controls to safeguard assets and ensure the judicious use of resources.

On the question of fraud detection, it was observed that a large number of the staff believes it is the internal audit Department's responsibility to detect fraud. The observation is that, when it comes to fraud detection, staff does not know that the board has the primarily responsibility to institute control systems for the prevention and detection of fraud. What is heartwarming is that the board knows that it is their responsibility to institute the control systems. The internal audit is responsible for assisting in the prevention of fraud by examining and evaluating the adequacy and effectiveness of the system of internal controls by assessing the effectiveness of the design, implementation and maintenance of the control systems.

5.1.5 Effectiveness of Internal Audit Department

Sampled responses suggested that staff do know and can appreciate the functions of the internal audit Department. The study found out that OARB's Internal Auditors ensure the integrity and accuracy of the bank's financial statements and its accounting, financial reporting and disclosure of policies, ensure soundness of the bank's system of internal controls which the bank had established, collaborate with the bank's external auditors as well as other regulatory bodies and inspectors and safeguard the bank's assets as well as the interest and rights of the bank's customers and staff. However the staffs overwhelmingly believe that the internal auditors do not review the adequacy of controls in the entity's IT systems?

5.1.6 Specific roles of Internal Audit in OARB

One critical role of internal audit is to ensure that risks are appropriately identified and managed. However, OARB do not have a risk plan in place. Staffs of OARB do know the roles of the internal audit Department. It was only a minority that could not indicate some

of the roles of the Department. Staffs do consider the roles of internal audit as tools for improving the performance of the OARB. In particular the staffs are aware that it is the duty of the internal Audit Unit of the bank to draw up an audit programme and plan to guide the activities of the audit unit for the accounting year and that they report periodically to the board on its activities through the audit and governance sub- committee of the Board.

5.1.7 Challenges faced by OARB's Internal Audit staff

The study gathered that skills and experiences as well as adequate resources are very critical if the internal audit department is to perform its roles effectively. It was observed that a just a little more than half of the staff agree that the Department has adequate resources to perform their roles effectively. However a large number of them think that the internal auditors have the required skills to perform their functions effectively. Again the relationship between management and internal auditors is suspect as a again a little over half of the staff believes their relationship is cordial even though a good number believes that internal audit reports are well accepted by management and the board.

5.2 Conclusion

The study has examined the impact of internal audit on OARB's corporate governance practices. In particular, it has examined the relevance of internal audit Department to OARB by looking at the internal audit department as an integral part of the OARBs' governance structure and how the internal audit function help in the implementation of strategy to achieve corporate objectives. The study also examined the effectiveness of the internal audit Department by looking at the functions and specific roles of the internal audit. The study also examined some challenges that could impact on the performance of the internal audit Department and OARB as a whole. The study noted that, indeed the role

played by the internal audit impact on the work of management in managing and governing OARB and that the internal audit Department affects the corporate governance practices of OARB.

5.3 Recommendations

As corporate governance continues to be highlighted because of the numerous corporate scandals that has hit the business world, the work of internal audit will continue to be very important to the running of organizations. It is also very crucial that other stakeholders will appreciate and support the job of internal audit for the benefit of society. The study makes the following recommendations as a measure to improve the services rendered by internal audit.

5.3.1 Audit charter

An audit charter is a formal document that serves as a guide to the internal audit Department, in the performance of its duties. It provides a basis for Management and the Audit and Governance sub-committee of the Board of Directors to use in evaluating the operations of the internal audit function. As a matter of urgency, the audit charter should be made available to all the Directors, and also all staff on the audit committee and executive management and internal auditors at the branches. This will enhance their knowledge and ensure cordial relationships among audit and other staff. It will also improve the performance OARB generally.

5.3.2 Capacity of Internal Audit Department

OARB is a multi-disciplined organization that deals with science and technology. The Internal Audit Department is expected to conduct financial and operational audits to ensure value for money. Management should therefore improve the capacity of Internal Audit

Department to deliver its mandate effectively and efficiently by hiring qualified and motivated staff for the Department. For operational and financial/management audits, it is imperative for Internal Audit Department to have the appropriate skill mix, i.e. staff with different professional backgrounds based on the needs of OARB. It is further recommended that, there should be continuous staff development to build their competencies to meet changing demands of the internal audit function.

5.3.3 Goodwill and support of management

There should be goodwill and support of management. Management should organize training programs on internal audit for non-audit managers and staff to appreciate the role of the Internal Audit Department in achieving the goals and objectives of OARB so as to:

- Recognize and accept internal audit function in OARB;
- Provide resources to the Internal Audit Department; and
- Support implementation and follow-up of audit recommendations not only to add value to OARB but also to boost morale of audit staff.

5.3.4 Funding internal audit activities

OARB is an organization spread across the Sekyere South District and the Kumasi Metropolis. The internal audit staffs are expected to cover all of them. It will be useful to provide a duty vehicle to the department to facilitate their independent movement to the branches.

5.3.5 Risk management plan

There is no comprehensive risk management plan in place at OARB. The study observed that management is yet to introduce risk management registers at all OARB Branches to comprehensively monitor and evaluate the risks faced periodically. One of the pillars of

good corporate governance is an appropriate risk management plan. It is therefore recommended that management should put in place a risk management plan with an appointed risk officer to effectively monitor and evaluate its risks periodically.

5.3.6 Scope of work of internal audit

The internal audit should be unrestricted in their scope of work. The internal audit should independently determine the key risks faced by OARB and how effectively OARB is managing these risks. There should be no obstacles to internal audit's ability to challenge management and to report its concerns.

5.3.7 Relationship with other staff

The internal audit should have an open, constructive and cooperative relationship with other staff which supports information sharing relevant to carrying out their mandates.

5.3.8 Reporting results and follow-ups

Internal audit should issue regular reports of their audits the audit committee of the board. They should do follow-ups to recommendations in their reports to Management.

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APPENDICES
KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,
SCHOOL OF BUSINESS
(MASTER OF BUSINESS ADMINISTRATION)
DEPARTMENT OF ACCOUNTING AND FINANCE
QUESTIONNAIRE ON
THE IMPACT OF INTERNAL AUDITING ON CORPORATE GOVERNANCE,
IN OKOMFO ANOKYE RURAL BANK (OARB) IN GHANA

INTRODUCTION

This questionnaire is part of my study on a research work for an MBA programme. Kindly indicate your preference among the alternative answers for each question by ticking the appropriate boxes and filling up gaps. Please be assured that your responses shall be treated with confidentiality. Thank you for your contribution.

EXPLANATORY TERMS

- a) Functions:** An action performed by a department, or person that produces a result which remains more or less fixed whereas the purpose indicates intention or objectives.

- b) **Roles:** The actions and activities assigned to, or required or expected of a person or group.
- c) **Efficiency:** It is the best use of resources. Accomplishes goals and objectives and in an accurate and timely fashion with minimal use of resources.
- d) **Effectiveness:** It is the best results. Providing assurance that the organization's objectives will be achieved.
- e) **Economy:** It is least cost. Accomplishes goals and objectives at a cost commensurate with the risk.
- f) **Risk:** It is probability of or threat of damage, injury, loss, or any other negative occurrence that is caused by external or internal vulnerabilities that may prevent organization to achieve its objectives.
- g) **Fraud:** It is intentional acts which may involve the falsification of documents or the misappropriation of documents or the misappropriation of assets.
- h) **Error:** It is unintentional misapplication of accounting policies, oversights or misinterpretations of facts.
- i) **Compliance:** It is about conforming to the controls and procedures imposed on organizations by appropriate laws or regulations.
- j) **Corporate governance:** It is a system by which companies are directed and controlled.
- k) **Operational Auditing:** It covers the examination and review of a business operation, including the control procedures. (e.g. Procurement, Marketing, Treasury, Human Resources).
- l) **Financial Auditing:** It embraces the conventional tasks of examining records and evidence to support financial and management reporting.

m) Internal Auditing: It is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

BACKGROUND INFORMATION

1. Sex: Male () Female ()
2. Age: 18 – 30 () 31 – 40 () 41 – 50 () 51 – 60 () 61 and above ()
3. Level of Education: MSLC () SHS/O&A Levels () HND () 1st Degree () 2nd Degree () PhD ()
4. Branch.....
5. Department.....
6. Designation/Category of staff
.....

GENERAL

7. Who do you think determines the policies and procedures of the Internal Audit Department? (*Please tick the applicable one*)

(i) Management () (ii) Internal Audit Department () (iii) Internal Audit with support from management ()

8. Who do you think determines the scope of work of Internal Audit Department?.....

9. Who do you think is responsible for deterring fraud?

Management () Internal Audit Department () Other

(Specify).....

RELEVANCE OF INTERNAL AUDIT DEPARTMENT TO OARB

The internal audit Department stands at the intersection of management, external auditors, the board of directors and other stakeholders outside the organization, but with interest in organizations.

With respect to the above what is your opinion on the following:

10. Do Internal Auditors evaluate and offer recommendations to improve governance processes?

(i) Yes (ii) No

11. In your view, Do Internal Auditors provide recommendations for improvements in compliance with key laws and?

(i) Yes (ii) No

12. Do Internal Auditors ensure accuracy, integrity & reliability of financial and operational Information?

(i) Yes (ii) No

13. Does the Internal Audit function ensure strict compliance with policies & procedures of OARB?

(i) Yes (ii) No

14. Do internal Auditors institute controls to Safeguard Assets and ensure judicious use of OARB?

(i) Yes () (ii) No ()

15. Does the Internal Audit function facilitate the prevention and detection of fraud?

(i) Yes () (ii) No ()

If yes, how do you think internal auditors perform the above function (question 15)?

(i) Monitoring & Evaluation (ii) Recommendations (iii) Reporting (iv) All of them(i-iii)

16. Does the Internal Audit function Assess the effectiveness of the design, implementation and maintenance of an entity's Internal Controls?

(i) Yes () (ii) No ()

Risk is generally defined as a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, that may prevent organization to achieve its objectives

17. Does the internal Audit function ensure adequacy of risks management in the Entity?

(i) Yes () (ii) No ()

18. Do internal auditors Assist management in implementation of strategy?

(i) Yes () (ii) No ()

EFFECTIVENESS OF INTERNAL AUDIT DEPARTMENT AND ITS APPRAISAL FUNCTIONS

In your opinion:

19. What are the functions of the Internal Audit Department?

.....

.....

20. Do Internal Auditors ensure the integrity and accuracy of the bank's financial statements and its accounting, financial reporting and disclosure of policies?

(i) Yes () (ii) No ()

21. Do Internal Auditors ensure soundness of the bank's system of internal controls which the bank had established regarding finance and accounting matters and their effective

implementation If No, what do you think internal auditors ought to do to be seen as performing their functions?

- (i) Yes () (ii) No ()

22. Do Internal Auditors ensure the banks compliance with statutory and policy manual requirements?

- (i) Yes () (ii) No ()

23. Do Internal Auditors collaborate with the bank's external auditors as well as other regulatory bodies and inspectors?

- (i) Yes () (ii) No ()

24. Do internal Auditors monitor efficiency, cost control and budgetary prudence?

- (i) Yes () (ii) No ()

25. Do Internal Auditors safeguard the bank's assets as well as the interest and rights of the bank's customers and staff?

- (i) Yes () (ii) No ()

26. Do Internal Auditors conduct special investigations and report in matters in financial malfeasance and general operational malpractice? (i) Yes () (ii) No ()

27. Do Internal Auditors review the adequacy of controls in the entity's IT systems?

- (i) Yes () (ii) No ()

SPECIFIC ROLES OF INTERNAL AUDIT IN OARB

28. What are the roles of the Internal Auditors/Department?

.....
.....

29. Is it the duty of the internal Audit Unit of the bank to draw up an audit programme and plan to guide the activities of the audit unit for the accounting year?

Yes () No ()

30. Is the Audit plan approved by the board through the boards' sub-committee on audit and governance?

Yes () No ()

31. Does the Internal Audit Unit report periodically to the board on its activities through the audit and governance sub- committee?

Yes () No ()

32. Does the Internal Audit Unit make suitable recommendations for the continuous improvement of and adherence to the banks' policies, procedures and practices of all levels?

Yes () No ()

33. If No, do you think, it can affect management internal audit relationship?

Yes () No ()

34. Does Internal Audit Unit undertake special assignments as requested by the board or as a matter of management interest?

Yes () No ()

35. Does Internal Audit Unit undertake special assignments as requested by the board or as a matter of management interest?

Yes () No ()

36. Is the Internal Audit Unit of the bank an independent body that reports directly to the board?

Yes () No ()

37. Does the internal Audit unit Assurance Services such as risk assessments and advice management on how to mitigate the impact of risks identified?

Yes () No ()

38. Does the internal Audit unit Assurance Services such as risk assessments and advice management on how to mitigate the impact of risks identified?

Yes () No ()

39. Does the Audit and Governance Sub-Committee review and discuss both Management and External Auditors, audited annual financial statements before they are released?

Yes () No ()

CHALLENGES AND PROBLEMS FACED BY INTERNAL AUDIT

40. Is the Internal Audit unit adequately resourced with staff and finance to enable them perform their functions?

Yes () No ()

41. Does Management of OARB support the audit program and ensure that the work is performed?

Yes () No ()

42. Do the Internal Audit staff have adequate training and updated skills required for their job?

Yes () No ()

43. Is there a cordial relationship between internal audit staff and management and other senior members of staff?

Yes () No ()

44. Are Internal Audit reports well accepted and given proper attention by management and the board?

Yes () No ()

INTERVIEW

Chairman of audit and governance sub-committee

1. Is management and staff of the various Branches of OARB aware of the existence of the Internal Audit Charter of OARB?
2. If not, what are you doing to ensure that the charter is brought to the attention of them?

Branch Managers:

3. Are you aware of a document called the audit charter that details the responsibilities, scope of work, functions, roles, etc of the internal audit Department?

Audit Staff:

4. You are guided by policies and procedures in your work. In your view, who determines the policies and procedures of your Department?

Audit and Finance Staff

5. In OARB, who is responsible for determining the scope of work of the audit Department?
6. Would you agree to the assertion that internal audit is an integral part of OARB governance structure?

Staff:

7. How does the internal audit Department, helps management develop and implement strategies?

Audit and Finance Staff:

8. Because of fraud, many companies are folding up. In your view, who is responsible for detecting, preventing and deterring fraud in OARB?

Audit Staff:

9. Does management and your Department perform risk review and assessment faced by OARB?

Audit Staff:

10. In your view, who is responsible for instituting controls in OARB?

Chairman of audit and governance sub-committee:

11. Does OARB have a risk management plan in place at OARB?

Audit Staff:

12. Do you think management take the advice that your Department offer to them?
13. Do you think your Department has the required skills necessary to perform your work?
What makes you think, you lack the required skills?

KNUST

